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Report of the External Auditor for 2017

Report of the External Auditor on the accounts of UNIDO for the financial year 1 January to 31 December 2017

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To the
President of the Industrial Development Board
United Nations Industrial Development Organization
Vienna International Centre
P.O. Box 300
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9 April 2018

Excellency,

I have the honour to present to the 46th session of the Industrial Development Board, through the 34th session of the Programme and Budget Committee, my report and opinion on the Financial Statements of the United Nations Industrial Development Organization for the year ended 31 December 2017. I have audited the Financial Statements and have expressed my opinion thereon.

In transmitting my report I wish to advise that in accordance with the United Nations Industrial Development Organization's Financial Regulations, I have given the Director-General the opportunity to comment on my report. The response of the Director-General has appropriately been reflected in my report.

Please accept, Excellency, the assurances of my highest consideration.

[*Signed*]
Kay Scheller
President of the Federal Court of Auditors
Germany
External Auditor

Acronyms and Abbreviations

AMS	SAP Asset Management System
APT	Accounts and Payments Division
BMS	Buildings Management Services
CATS	Cross-Application Timesheet System
CIO	Chief Information Officer
CPNOS	Capacity Plan and New Organization Structure of BMS
CSC	Catering Services Cost
DG	Director General
EA	External Auditor
EIO	Office of Evaluation and Internal Oversight
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
FO	Field Offices
FR	Financial Regulations and Rules of UNIDO
GBP	Global Banking Project
GC	General Conference
GEF	Global Environment Facility
GES	General Support Services Unit
G/L	General Ledger
HQ	Headquarters
HR	Human Resources
HRM	Department of Human Resources Management
HR Specialist	Human Resources Specialist
ICT	Information and Communications Technology
ICF	Internal Control Framework
INTOSAI	International Organization of Supreme Audit Institutions
IOE	Office of Internal Oversight and Ethics
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISMS	Information Security Management System
ISSAI	International Standards for Supreme Audit Institutions
ITC	Department of Information Technology and Communications
ITS	Information Technology Services Division
ITIL	IT Infrastructure Library
JIU	Joint Inspection Unit
LVA	Low Value Asset
LVAI	Low Value Attractive Items
Management	UNIDO Management
MCIF	Major Capital Investment Fund
MLF	Multilateral Fund for the Implementation of the Montreal Protocol
PCOR	Programme for Change and Organizational Renewal
PMM	Property Management Manual
PPE	Property, Plant and Equipment
PPM	Portfolio and Project Management
PRO	Procurement Services Division

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PSC	Programme Support Costs
RTLS	Real Time Location System
SAP GUI	SAP Graphical User Interface
SAVCCA	Special Account of Voluntary Contributions for Core Activities
SRM	UNIDO Manual for Asset Creation in Supplier Relationship Management
TC	Technical Cooperation
TIS	Technology and Information Systems Division
ToR	Terms of Reference
TRS	Treasury Services Unit
UB	Unutilized Balances of Appropriations
UNDP	United Nations Development Programme
UNGM	United Nations Global Marketplace
UNICC	United Nations International Computing Centre
UNIDO	United Nations Industrial Development Organization
UNOV	United Nations Office at Vienna
UNSSS	United Nations Security and Safety Service
VBO(s)	Vienna Based Organization(s)
VIC	Vienna International Centre

A. Executive Summary

My team and I audited the financial statements of UNIDO.

1. My team and I audited the financial statements of the United Nations Industrial Development Organization (hereinafter "UNIDO") for the financial period from 1 January to 31 December 2017. The financial statements include the following:

- Statement 1 Statement of financial position
- Statement 2 Statement of financial performance
- Statement 3 Statement of changes in net assets
- Statement 4 Cash flow statement
- Statement 5 Statement of comparison of budget and actual amounts
- Notes to the financial statements

Responsibility of Management.

2. The Director-General (hereinafter "DG") is responsible for preparing the financial statements in accordance with Article X of the Financial Regulations and Rules of UNIDO (hereinafter "FR") and in conformity with the International Public Sector Accounting Standards (hereinafter "IPSAS").

Responsibility of the External Auditor.

3. In accordance with Article XI of FR, my responsibility is to express an opinion on such financial statements based on my audit.

I conducted my audit in conformity with the International Standards on Auditing.

4. I conducted my audit, pursuant to Article XI of FR, in conformity with the International Standards on Auditing (hereinafter "ISA") as adopted and amended by the International Organization of Supreme Audit Institutions (hereinafter "INTOSAI") and issued as International Standards for Supreme Audit Institutions (hereinafter "ISSAI"). As stipulated by these standards, I need to comply with ethical requirements and to plan and carry out the audit with a view to obtaining reasonable assurance about whether the financial statements are free from material misstatement.

Scope of the audit as a reasonable basis for the audit opinion.

5. The audit included the examination, on a test basis, of evidence supporting the amounts and disclosures stated in the financial statements. It also encompassed an assessment of the accounting principles used and an evaluation of the overall presentation of the financial statements. In accordance with the Terms of Reference (hereinafter "ToR") governing the audit of UNIDO financial statements, I examined UNIDO performance, i.e. in particular the economy, efficiency and effectiveness of the accounting procedures, of the accounting system, of the internal control system and, in general, the financial impact of current management practices. I also reviewed specific issues concerning the administration and management of UNIDO. I believe that my audit provides a reasonable basis for the audit opinion.

The financial statements present a fair view of the financial position.

6. As a result of my audit, I am of the opinion that the financial statements present, in all material respects, a fair view of the financial position as at 31 December 2017, that they were prepared in accordance with IPSAS and the accounting policies stated by UNIDO, and that the transactions were conducted in accordance with FR.

I issued an unqualified opinion on the financial statements.

7. The audit revealed no shortcomings or errors that I considered material with regard to the accuracy, completeness and validity of the financial statements as a whole. Therefore, I expressed an unqualified audit opinion on UNIDO financial statements for 2017.

B. Audit Procedure

B.1. Scope of the Audit

President of the Bundesrechnungshof appointed as External Auditor of UNIDO.

8. Pursuant to the General Conference (hereinafter "GC") decision GC.16/Dec.14 and the Federal German Parliament election as President of the Bundesrechnungshof (German Supreme Audit Institution), the undersigned, Mr Kay Scheller, is the appointed External Auditor (hereinafter "EA") of UNIDO until 30 June 2018.

Financial statements for the financial year 2017.

9. My team and I audited the financial statements of UNIDO for the financial year from 1 January to 31 December 2017, the notes thereon and examined related financial accounts and transactions.

International Public Sector Accounting Standards. Accounting policies have already been audited and are IPSAS-compliant.

10. Management adopted IPSAS as the basis of accounting, starting for the financial year 2010. The significant accounting policies are presented in Note 1 to the financial statements. The application of accounting policies is consistent as compared to the previous year. It fulfils the structural requirements of IPSAS 1.88. The accounting policies developed by the Secretariat have already been audited and are compliant with IPSAS.

Responsibility of Management.

11. The DG is responsible for the preparation and fair presentation of the financial statements in accordance with FR, and in application of such internal controls as Management considers necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the External Auditor.

12. I am responsible for expressing an opinion on the financial statements based on evidence obtained during my audit. I conducted my audit, pursuant to Article XI of FR, in conformity with ISAs as adopted and amended by INTOSAI and issued as ISSAI. As stipulated by these standards, I need to comply with ethical requirements, and to plan and perform the audit with a view to obtaining reasonable assurance about whether the financial statements are free from material misstatement.

Report discussed with Management.

13. My report on financial year 2017 contains the main observations, findings and recommendations. The financial statements of UNIDO, as well as my audit report and audit opinion, were discussed with UNIDO management (hereinafter "Management"). DG took note of the report contents and agreed with the findings.

Reporting to PBC and IDB.

14. The EA Report and the audited financial statements will be forwarded by the Programme and Budget Committee to the Industrial Development Board.

B.2. Audit Objective

Financial audit as basis of the audit opinion.

15. According to the requirements of ISA, the main objective of the audit was to enable me to express an opinion on whether expenses recorded for the year had been incurred for the purposes approved by GC; whether revenue and expenses were properly classified and recorded in accordance with FR; and whether the financial statements present a fair view of the financial position as at 31 December 2017. This includes the correctness of year-end balances of all UNIDO funds as part of UNIDO accounts.

Performance audits with respect to economy, efficiency and effectiveness.

16. In addition, the ISSAI provide guidance on the conduct of performance audits. In accordance with the ToR governing the audit of UNIDO financial statements, I examined UNIDO performance, i.e. in particular the economy, efficiency and effectiveness of the accounting procedures, of the accounting system, of the internal control system and, in general, the financial impact of current management practices.

B.3. Audit Approach

Audit team and audit approach.

17. The audit was conducted by audit teams. The audit teams held discussions with the relevant UNIDO staff at the Headquarters. In accordance with usual practice, my audit teams issued information requests and audit observations.

My team examined the accounting records as considered necessary.

18. My examination included a general review, and such tests of the accounting records and other supporting evidence as I considered necessary in the given circumstances. To achieve the audit objectives, I examined the financial and accounting procedures applied at UNIDO in the light of FR and other relevant documentation assessed the internal control system monitoring the financial operations of UNIDO, conducted substantive testing of a representative sample of selected transactions, cross-checked bank balances against accounting records, and analysed assessed contributions. These audit procedures are designed primarily to enable me to express an opinion on UNIDO financial statements.

Random sample.

19. Using professional audit software, my team analysed UNIDO data records and transactions. My team took a random sample and verified if transactions and related documents had been filed in accordance with the regulations as part of their work thus cross-checking the basis for payment and the necessary authorizations. None of the transactions examined gave cause for concerns.

Areas covered in this report.

20. My report includes observations and recommendations intended to contribute to improving the financial management and control of UNIDO. My audit work mainly covered the financial audit of the 2017 financial statements. In accordance with Regulation 11.4 of FR, my team audited the Internal Control Framework and Risk and Performance Management. Moreover, my team focused on UNIDO's Financial Management in regard of full cost recovery. Furthermore, my team continued its audits on information technology and procurement. At the end of my report, I will present our findings on the process of following up on recommendations and other topics, such as fraud, write-offs, losses and ex-gratia payments.

B.4. Audit Conclusion

There were no material shortcomings that affected the audit opinion. I expressed an unqualified audit opinion on the financial statements.

21. Notwithstanding the observations in this report, my examination revealed no shortcomings or errors that I considered material with regard to the accuracy, completeness and validity of the financial statements as a whole. Recommendations relating to improved procedures or more comprehensive disclosures were taken up by Management. None of my findings affected my audit opinion on UNIDO financial statements. Therefore, I expressed an unqualified opinion on UNIDO financial statements for 2017.

C. Analysis of the Financial Statements

C.1. Introduction

UNIDO is largely funded by voluntary contributions.

22. UNIDO is largely funded through voluntary contributions. In 2017, their net amount was 214.1 million euros (2016: 217.9 million euros) of total revenue of 283.6 million euros (2016: 291.3 million euros). Revenue also included 66.7 million euros from assessed contributions (2016: 68.2 million euros). Expenses for the year were 250.4 million euros (2016: 225.2 million euros), resulting in an operating surplus of 33.2 million euros (2016: operating surplus of 66.1 million euros).

Key facts of UNIDO.

Core staff of 675 from 47 locations
€87.7 million original budget for 2017 in the 2016-2017 biennium
€283.6 million revenues in 2017
€250.4 million expenses in 2017
€282.1 million accounts receivable, mainly from donors and Member States
€447.4 million cash and cash equivalents
€241.6 million employee benefits liabilities

C.2 Statement of Financial Position

Capital structure ratios.

23. My analysis of capital structure ratios (Table 1) demonstrates that, despite the competitive environment for donor funds, the current overall financial position of UNIDO remains sound and is stable compared to 2016 and 2015, with an assets to liabilities ratio of 2.05. The analysis of ratios shows relative consistency over the last three financial years.

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Description of ratio	*31 December 2015*	*31 December 2016*	*31 December 2017*
Total assets: total liabilities[a]	1.89	2.00	2.05
Assets: liabilities			
Current ratio[b]	4.11	5.75	5.16
Current assets: current liabilities			
Quick ratio[c]	3.92	5.54	4.97
Cash + short-term investments + accounts receivable: current liabilities			
Cash ratio[d]	2.85	4.21	3.53
Cash + short-term investments: current liabilities			

Table 1: Capital structure ratios

Source: External Auditor's analysis of UNIDO financial data.

[a] A high ratio indicates an entity's ability to meet its overall obligations.

[b] A high ratio indicates an entity's ability to pay off its current liabilities.

[c] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

[d] The cash ratio is an indicator of an entity's liquidity; it measures the amount of cash, cash equivalents or invested funds that are in current assets to cover current liabilities.

Total net assets increased.

24. Current assets decreased by 5.5 per cent. Non-current assets increased by 21.2 per cent. Whereas current liabilities increased by 5.3 per cent, non-current liabilities declined by 7.4 per cent. As a result, UNIDO total net equity grew by 6.3 million euros (1.5 per cent) to 420.9 million euros. The trend from 2014 to 2017 is shown in Table 2.

	Year as at 31 December				
	2014 (restated)	**2015**	**2015 (restated)**	**2016**	**2017**
Current assets					
million euros	556.7	633.9		692.3	654.1
percentage change	*1.0%*		*13.9%*	*9.2%*	*(5.5%)*
Non-current assets					
million euros	108.9	142.2	140.9	138.1	167.2
percentage change	*400.2%*	*30.7%*	*29.3%*	*(2.9%)*	*21.2%*
Total assets					
million euros	**665.6**	**776.2**	**774.9**	**830.3**	**821.3**
percentage change	***16.2%***	***16.6%***	***16.4%***	***7.0%***	***(1.1%)***
Current liabilities					
million euros	144.8	154.2		120.5	126.9
percentage change	*(10.9%)*		*6.5%*	*(21.9%)*	*5.3%*
Non-current liabilities					
million euros	273.2	256.5		295.3	273.6
percentage change	*51.3%*		*(6.1%)*	*15.1%*	*(7.4%)*
Total liabilities					
million euros	**418.0**	**410.7**		**415.8**	**400.5**
percentage change	***21.8%***		***(1.8%)***	***1.2%***	***(3.7%)***
Total net assets/equity					
million euros	**247.5**	**365.6**	**364.3**	**414.6**	**420.9**
percentage change	***7.8%***	***47.7%***	***47.2%***	***13.4%***	***1.5%***

Table 2: Statement of financial position

Decreased assets and liabilities.

25. The increase in non-current assets is mainly caused by an increased value of accounts receivables. This is offset by a decrease in cash and cash equivalents, which keeps overall assets rather stable. Liabilities decreased slightly due to a decrease in the actuarial valuation of employee benefits. This resulted from actuarial gains due to adjusted discount rates. Post-employment benefits are expected to rise in the future resulting in the continuing growth of non-current liabilities. This might have a negative impact on UNIDO total net assets if assets do not grow at the same rate.

ASHI form the largest part of UNIDO's employee benefits liabilities.

26. Employee benefits liabilities account for approximately 60 per cent of UNIDO's total liabilities and require a comprehensive analysis and management. After service health insurance (ASHI) liabilities with a total of 213.9 million euros at the end of 2017 form the largest portion of these liabilities.

UNIDO uses the "pay-as-you-go" basis.

27. Currently, UNIDO manages ASHI on a pay-as-you-go basis, in which current contributions by employees are used to cover current expenses. UNIDO holds no funding for future ASHI liabilities.

The issue of financing the ASHI obligation is common to many United Nations organizations.

28. The issue of financing the ASHI obligation is common to many United Nations system organizations. The United Nations System Chief Executive Board for Coordination (CEB) High-Level Committee on Management (HCLM) has identified the need for a common approach to fund growing ASHI liabilities within its priority issues for 2013–2016. However, future decisions which might result in a common approach of the ASHI management for United Nations organizations and specialized agencies cannot be anticipated.

UNIDO's approach so far.

29. In my last year's annual report, I pointed out the need to assure future funding of these liabilities. However, with reference to the study conducted by the Advisory Committee on Administrative and Budgetary Questions, which submitted its report to the United Nations General Assembly (UNGA) at its 68th session on 25 October 2013 (A/68/550), UNIDO pointed out that according to Management's assessment, the annual servicing costs have peaked or will soon do so due to natural developments of the population and the changes in HR policies and practices in the past years. Nonetheless, Management would continue monitoring the situation closely.

Further developments should be taken into account.

30. As long as the needed annual payments remain stable, the present solution is probably the most adequate, for a debt whose average maturity is long term. Nevertheless, the annual actuarial study shows that, depending on various parameters, the ASHI commitments could, at a certain degree, cause the need for additional funding. Within the last year, changed actuarial assumptions such as an increased discount rate led to an overall decrease in employee benefits liabilities as compared to the prior year. This, however, is only a transitory effect. In the longer term, ASHI liabilities in particular are estimated to increase in all international organizations. Moreover, UNIDO has a low level of current assets to meet its current liabilities, especially on the Regular Budget Fund.

UNIDO should also closely follow the discussions within the United Nations system.

31. Moreover, in a General Assembly discussion on the Secretary-General's report with regard to action on ASHI, the United Nations Controller has highlighted that "for organizations heavily funded by voluntary contributions, at least a core amount of investment would be required." UNIDO relies mainly on voluntary contributions and therefore has a relatively high risk of not being able to cover for all future ASHI liabilities. UNIDO has the responsibility towards its employees to be able to cover ASHI also in future periods and to avoid the risk of financial strains when liquid money is needed for this purpose.

Recommendation(s).

32. I recommend that UNIDO review its funding for ASHI liabilities, also in comparison with other funding models within the United Nations system, where a partial funding is often set up to counter the risk of pay-as-you-go schemes. While the pay-as-you-go method is widely used within the United Nations system, UNIDO has the responsibility towards its employees to be able to cover ASHI also in future periods. In the longer term, UNIDO will most likely need additional funding to cover for ASHI expenses, which should slowly be built up in advance. To avoid future financial and operational risks, I encourage UNIDO to consider a partial funding of its ASHI liabilities.

Management's response.

33. Management agrees with the recommendation. The informal working group established to address Programme and Budget Committee-related issues plans to discuss ASHI liabilities during a working session.

C.2.1 Assets

Assets overview.

34. The two major components of the UNIDO asset base are cash and cash equivalent balances, which totalled 447.4 million euros (2016: 507.2 million euros) and accounts receivables of 282.1 million euros (2016: 229.2 million euros). The returns on the UNIDO cash balances totalled 0.3 million euros (2016: 0.6 million euros). Accounts receivable mainly include assessed contributions and voluntary contributions which represent the remaining sums due over the lifetime of the current agreements with donors, of which an amount of 100.9 million euros (2016: 70.6 million euros) is due in more than one year's time. The level of all voluntary contributions receivable significantly increased by 25.4 per cent during 2017 (2016: 2.3 per cent), which means that the actual receipt of contribution deposits was lower than before.

C.2.1.1. Cash and cash equivalents

Overall cash situation satisfactory.

35. The overall cash situation of UNIDO is satisfactory. Cash and cash equivalents comprise: cash in the bank and on hand; term deposits with a maturity up to 12 months; cash and cash equivalents held in field offices.

Euro/dollar exchange rate.

36. In 2017, the euro strengthened against the dollar in the foreign exchange market. The year-end euro/dollar exchange rate increased to 1.195 compared to 1.046 in 2016. As a result, UNIDO made a foreign exchange loss of 38.5 million euros in 2017 on translation of non-euro currencies compared to a gain of 4.7 million euros in 2016.

Cash decreased.

37. Cash and cash equivalents decreased by 11.8 per cent to a total of 447.4 million euros compared to 507.2 million euros in 2016. Whereas cash in the bank and on hand considerably increased, term deposits decreased by 125.5 million euros to 262.2 million euros. The trend from 2014 to 2017 is shown in Table 3.

	Year as at 31 December				
	2014 (restated)	2015	2015 (restated)	2016	2017
Cash in the bank and on hand					
million euros	99.6	123.0		116.4	182.6
percentage change	*(24.9 %)*	*23.5 %*		*(5.3%)*	*56.8%*
Term deposits with original maturity less than 12 months					
million euros	340.7	314.4		387.7	262.2
percentage change	*12.0 %*	*(7.7 %)*		*23.3%*	*(32.4%)*
Cash and cash equivalents held in field offices					
million euros	2.4	2.3		3.2	2.6
percentage change	*19.5 %*	*(3.5 %)*		*35.5%*	*(16.4%)*
Cash and cash equivalents					
million euros	**442.7**	**439.7**		**507.2**	**447.4**
percentage change	***0.9 %***	***(0.7 %)***		***15.4***	***(11.8%)***

Table 3: Cash and cash equivalents (source: Note 2)

Investments in euro increased.

38. The average interest rate for holdings in dollar increased again considerably from 0.68 per cent in 2016 to 1.13 per cent in 2017. The trend of continuously decreasing interest rates for holdings in euro turned into the exact opposite. The

average interest rate increased by 348 per cent from a rate of 0.05 per cent in 2016 to 0.17 per cent in 2017. Nevertheless, interest rates for holdings in euros are comparatively low. So UNIDO decreased the investments in euros by 111 million euros to 80 million euros. Holdings in US dollars remained rather stable and amounted to 217.7 million euro in 2017 compared to 205.7 million dollars in 2016. The ratio between investments in dollars and euros was 56 per cent to 44 per cent as at 31 December 2017. Thus, the ratio remains almost stable.

Penalty interest.

39. Within the euro zone, UNIDO has been dealing with almost zero interest rates for some years, even with penalty interests in the past. Due to long-standing business relations with counterpart banks, UNIDO was able to manage term deposits in euros with zero or small interest rates in the past. In 2017, UNIDO transferred about 65 million euro from short-term deposits. Respective short-term deposits expired and counterpart banks did not offer a prolongation. To avoid penalty interests, UNIDO had to deploy these investments from short-term deposits to cash in the bank and on hand. Treasury takes efforts to establish business relations with new counterpart banks to invest these amounts. Opening of new bank accounts take about six months due to negotiations and selection of reliable counterpart banks.

C.2.1.2. Assessed contributions receivable

Current assessed contributions decreased.

40. In 2017, the level of current assessed contributions receivable decreased by 3.2 million euros to 90.0 million euros. Receivables of non-current assessed contributions increased by 0.6 million euros caused by payment plans with Armenia and Kyrgyzstan which are applied for the first time. The amount of allowance increased accordingly. Confirmed contributions of Member States that fall due after one year from the reporting date in accordance with agreed payment plans are disclosed as non-current contributions receivable. Payment plans are negotiated between the Member States and Management. As at year-end 2017, three payment plans exist whereas 79 Member States are in arrears without a payment plan. The trend is shown in Table 4.

	Year as at 31 December				
	2014 (restated)	2015	2015 (restated)	2016	2017
Current assessed contributions receivable					
million euros	98.4	103.2		93.2	90.0
percentage change	*6.4 %*	*4.8 %*		*(9.7%)*	*(3.4%)*
Allowance for doubtful accounts					
million euros	89.8	91.4		81.9	81.2
percentage change	*3.5 %*	*1.9 %*		*(10.5%)*	*(0.9%)*
Non-current assessed contributions receivable					
million euros	0.6	0.1		0.1	0.6
percentage change	*(45.0 %)*	*(84.1 %)*		*0%*	*880.0%*
Allowance for doubtful accounts					
million euros	0.2	0.1		0.03	0.6
percentage change	*(76.7 %)*	*(78.3 %)*		*(38.0%)*	*1793.3%*

Table 4: Assessed contributions receivable (source: Note 3)

Allowance for doubtful contributions had to be calculated as at 31 December 2017.

41. According to IPSAS, an allowance for doubtful contributions had to be calculated as at 31 December 2017. The allowance amount for doubtful assessed contributions decreased by 0.8 million euros to a total of 81.2 million euros. More than 71 million euros of the allowance refer to doubtful assessed contributions of two former Member States. The total outstanding amounts (without former Member States) decreased to a total of 19.5 million euros. The trend is shown in Table 5.

	Biennium		
	2012 – 2013	2014 – 2015	2016 – 2017
Assessed contributions receivable million euros	153.2	143.2	136.4
Assessed contributions collected million euros	146.4	129.6	124.3
Assessed contributions outstanding million euros	6.8	13.5	12.1
Outstanding amounts in total as at 31 December of the second year million euros	22.3	32.1	19.5

Table 5: Status of assessed contributions without former Member States — biennium — (source: Annex I e)

If assessed contributions are paid later than the biennium to which they relate, they become part of the unutilized balances.

42. Pursuant to FR 5.1, the appropriations approved by Member States for regular budget expenditures shall be financed by mandatory contributions from the Member States. If assessed contributions are paid later than the biennium to which they relate, they cannot be used for the originally planned programme of work but will become part of the unutilized balances of appropriations and ultimately surrendered to the Member States in accordance with FR 4.2.

Recommendation(s).

43. I would like to recall that delayed payments of assessed contributions put a substantial additional strain on the UNIDO regular budget. The willingness of Member States to pay assessed contributions in due time is crucial to overcome this weakness. Furthermore, efforts to negotiate payment plans with Member States being in arrears should be strengthened. Member States might also want to consider steps to limit the negative impacts by enabling UNIDO to use assessed contributions to their full extent for programmed core activities within the regular budget even if they are paid after the relevant biennium (see also Table 7). For this purpose, the financial regulations would have to be changed accordingly.

Management's response.

44. Management supports the recommendation. Discussions are ongoing on the treatment of unutilized balances, including the required changes to the financial regulations in the informal working group established to address Programme and Budget Committee-related issues.

C.2.1.3. Voluntary contributions receivable

Voluntary contributions increased.

45. In 2017, voluntary contributions receivable increased by 55.1 million euros to a total of 271.9 million euros. No allowance has been made to voluntary contributions. The trend from 2014 to 2017 is shown in Table 6.

	Year as at 31 December				
	2014 (restated)	2015	2015 (restated)	2016	2017
Voluntary contributions receivable (current) million euros	70.5	139.2		146.2	171.1
percentage change			*97.4 %*	*5%*	*17.0%*
Voluntary contributions receivable (non-current) million euros	39.9	72.8		70.6	100.8
percentage change			*82.5 %*	*(3.1%)*	*42.9%*
Voluntary contributions receivable **million euros**	**110.4**	**212.0**		**216.8**	**271.9**
percentage change	***59.3 %***		***92.0 %***	***2.3%***	***25.4%***

Table 6: Voluntary contributions receivable (source: Note 3)

Voluntary contributions cause imbalance.

46. The growth of voluntary contributions has accelerated again in 2017 after a slower pace in 2016. While they help to improve the overall financial position of UNIDO, they cause a significant imbalance between the regular budget, funded by assessed contributions, and the voluntarily financed operational budget. Earmarked voluntary contributions are subject to specific conditions or require co-funding of projects. As these voluntary contributions fail to fully cover programme support costs, UNIDO faces difficulties to cover the necessary expenses from the decreasing regular budget. This situation is exacerbated by the withdrawal of Member States and the late or non-payment of assessed contributions.

Consequences for UNIDO activities.

47. The decrease of fully disposable and predictable financial funding has several negative consequences for UNIDO. The lack of sufficient funds for UNIDOs core activities is a serious impediment for structural developments in the organization that could improve efficiency and reduce risks. For example, it impedes rapid progress to implement a well-functioning risk management and to improve ICT governance. Furthermore, it weakens the ability of UNIDO to deal with future financial risks, e.g. those arising from post-employment benefits.

SAVCCA is beginning to grow.

48. In this situation, one option is to reduce spending financed from the regular budget. In my opinion, it is crucial that this is not done at the expense of the ability of UNIDO to fulfil its tasks, but by increasing the efficiency of operations. For this purpose, evaluation, performance assessment and monitoring should be further developed. Another course of action is to open up additional resources for the regular budget. This is why a Special Account of Voluntary Contributions for Core Activities (SAVCCA) was established in 2015. In my last report, I encouraged Member States to consider reducing financial imbalances by making voluntary funding available for SAVCCA. Whereas in 2017 only 11,983 euros were paid in, 140,251 euros have been added this year so far. I welcome this development. I would like to encourage management to promote this way of funding, also by demonstrating how the resources provided were used.

C.2.2. Liabilities

C.2.2.1. Assessed contributions receivable

FR 4.2.

49. According to FR 4.2, "the unencumbered balance of the appropriations at the end of a fiscal period shall be surrendered to the Members at the end of the first calendar year following the fiscal period after deducting therefrom any contributions from Members relating to that fiscal period which remain unpaid, and shall be credited to the Members in proportion to their assessed contributions in accordance with the provisions of the Financial Regulations 4.2 (c) and 5.2 (d)".

Accounts payable to Member States.

50. The surplus amount available for distribution is the unspent balance resulting from the collections from Member States. The collected assessed contributions received relative to earlier biennia plus the amounts received from new Member States are shown under "accounts payable" (pending receipt of the instructions on the use of funds by Member States concerned). The trend is shown in Table 7.

	Year as at 31 December				
	2014 (restated)	2015	2015 (restated)	2016	2017
Unencumbered balance brought forward on 1 January million euros	16.6	4.8		11.7	5.5
Plus: Collection of contributions from previous period and cash surplus million euros	0.7	10.0		0.0	18.3
Minus: Applied to assessment, retained for Technical Cooperation (hereinafter "TC") activities or refunded to Member States million euros	(12.4)	(3.1)		(6.2)	(2.7)
Balance payable to Member States million euros	4.8	11.7		5.5	21.1

Table 7: Unencumbered balance (source: Note 10)

C.2.2.2. Employee benefits liabilities and advance receipts

Overview.

51. Employee benefits liabilities consist of current and non-current liabilities. The trend is shown in Table 8.

	Year as at 31 December				
	2014 (restated)	2015	2015 (restated)	2016	2017
Short-term benefits					
million euros	2.0	3.0		2.9	3.1
percentage change	*30.4 %*	*53.6 %*		*(4%)*	*5.2%*
Post-employment benefits					
million euros	223.5	211.5		251.9	232.7
percentage change	*27.7 %*	*(5.3 %)*		*19.1%*	*(7.6%)*
Other long-term benefits					
million euros	6.2	6.0		6.3	5.8
percentage change	*14.4 %*	*(2.6 %)*		*4.6%*	*(7.8%)*
Total liabilities					
million euros	**231.6**	**220.5**		**261.1**	**241.6**
percentage change	***27.3 %***	***(4.8 %)***		***18.4%***	***(7.5%)***

Table 8: Employee benefits liabilities (source: Note 11)

Short-term employee benefits are negligible.

52. Short-term employee benefits liabilities including salaries, home leave travel and education grants are calculated by UNIDO based on personnel data and past payment experience. Compared to non-current employee benefits liabilities, short-term employee benefits amounting to 3 million euros are negligible.

Non-current employment benefits.

53. Post-employment benefits and other long-term employee benefits are determined by professional actuaries. The actuarial valuation is an estimate of the long-term liabilities. Changes in assumptions, the discount rate and the inflation rate could significantly affect such an estimate. The assumptions are disclosed by Management in accordance with IPSAS.

The largest element for employee benefits liabilities results from the estimate for the cost of ASHI.

54. UNIDO's most significant liability is for employee benefits that amount to 241.6 million euros (2016: 261.1 million euros). The employee benefits liabilities represent obligations incurred at year-end, the largest element being the estimate for the cost of after service health insurance (ASHI) of 213.9 million euros (2016: 231.5 million euros) (see also para. 26–33).

The second most significant element of UNIDO's liabilities results from advance receipts.

55. The second most significant element of UNIDO's liabilities results from advance receipts of in total 61.8 million euros (2016: 74.4 million euros). Of this amount, 23.9 million euros (2016: 32.6 million euros) are from voluntary contributions advances, where the revenue will be recognized, as the conditions set forth in the agreements are met in future financial periods. These advance receipts represent — from UNIDO's perspective — commitments to donors for the provision of future services.

C.3. Statement of financial performance

Total revenues decreased.

56. In 2017, total revenues decreased by 2.6 per cent to a total of 283.6 million euros. This is mainly due to lower voluntary contributions totalling almost 214 million euros. The assessed contributions decreased again by 2.2 per cent in 2017 compared to 4.2 per cent in 2016.

A currency translation loss led to an overall deficit.

57. Due to a strengthening of the euro against the US dollar, a currency translation loss of 38.5 million euros (2016: gain of 4.7 million euros) lead to an overall deficit of 5.3 million euros (2016: surplus of 70.8 million euros).

Still positive operating surplus in 2017.

58. Slightly decreased revenues and increased expenses across all categories lead to a lower but positive operating surplus than in 2016. The trend is shown in Table 9.

	Year ended 31 December				
	2014 (restated)	2015	2015 (restated)	2016	2017
Total revenue					
million euros	**221.6**	**305.1**	**304.9**	**291.3**	**283.6**
percentage change	***15.7 %***	***37.7 %***	***37.6 %***	***(4.5 %)***	***(2.6%)***
thereunder:					
- Assessed contributions					
million euros	71.9	71.2		68.2	66.7
percentage change	*(6.0 %)*	*(1.0 %)*		*(4.2%)*	*(2.2%)*
- Voluntary contributions					
million euros	149.6	228.8		217.9	214.1
percentage change	*31.3 %*	*52.9 %*		*(4.8 %)*	*(1.7%)*
- Investment revenue					
million euros	0.1	0.0		0.6	0.3
percentage change	*(81.6 %)*	*(80.0 %)*		*3333 %*	*(50%)*
Total expenditure					
million euros	**191.4**	**223.1**	**223.1**	**225.2**	**250.4**
percentage change	***(16.9 %)***	***16.6 %***	***16.6 %***	***0.9 %***	***11.2%***
This comprises:					
- Salaries / employee benefits					
million euros	106.9	126.3		121.0	126.2
percentage change	*(0.9 %)*	*18.2 %*		*(4.2 %)*	*4.3%*
- Operational costs					
million euros	31.8	26.7		25.6	30.4
percentage change	*(6.3 %)*	*(16.2 %)*		*(4.1 %)*	*18.6%*
- Contractual services					
million euros	44.6	55.8		62.9	74.0
percentage change	*(36.4 %)*	*25.1 %*		*12.7 %*	*17.6%*
- TC equipment expensed					
million euros	4.5	6.2		5.8	10.1
percentage change	*(71.1 %)*	*36.4 %*		*(6.5 %)*	*74.1%*

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Currency translation differences					
million euros	(26.0)	(33.3)		(4.7)	38.5
change in million euros	(35.6)	(7.3)		28.6	43.2
Surplus/(deficit)					
million euros	**56.2**	**115.2**	**115.0**	**70.8**	**(5.3)**
change in million euros	**104.5**	**59.0**	**58.8**	**(44.2)**	**(76.1)**

Table 9: Financial performance (source: Statement 2)

In the same period, expenditures increased by 25 million euros.

59. In the same period, expenditures increased by 25 million euros. Expenditures for salaries and employee benefits increased by 5.2 million euros. Expenditures for contractual services increased in the same period by approximately 11 million euros. TC equipment expenditures and operational costs remained relatively stable.

Currency translation losses increased substantially.

60. UNIDO performance declined by over 76 million euros to a deficit of 5.3 million euros. This is mainly attributable to currency translation losses and increased expenditures. Currency translation gains or losses represent an accounting valuation only without resulting in cash in- or outflow. They have no impact on the financial performance of UNIDO.

C.4. Statement of Comparison of Budget and Actual Amounts

Preparation of budget and accounts on different bases.

61. Since the adoption of IPSAS, UNIDO budgets und accounts have not been prepared on the same basis. Statements 1 to 4 are fully prepared on an accrual basis. Budget items have been classified based on the nature of expenses in accordance with budgets approved for the biennium 2016–2017.

Statement 5 serving as a link.

62. The statement of comparison of budget and actual amounts (Statement 5) provides a reconciliation of budgets with accounts. It is prepared on a modified cash basis of accounting. Budget utilization for 2014–2017 is shown in Table 10.

	Year ended 31 December				
	2014 (restated)	2015	2015 (restated)	2016	2017
Original budget					
million euros	88.4	91.7		85.3	87.7
Final budget					
million euros	88.4	102.0		85.3	96.3
Actuals on comparable basis					
million euros	78.0	87.6		76.7	83.1
Balance of appropriations					
million euros	10.3	14.5		8.6	13.2
percentage of final budget	11.7%	14.2%		10.1%	13.7%

Table 10: Comparison of budget and actual amounts (source: Statement 5)

Percentage of unspent budget funds increased. UNIDO operates prudently with the authorized budget.

63. In 2017, the percentage of unspent budget went up to 13.7 per cent but did not reach the level of 2015. This development over the two years biennium cycle can be observed in any budget period. The main reason for UNIDO to operate below the authorized budget allocations throughout the year is uncertainty in the payment of assessed contributions by Member States (compare, for instance note 18.9 – staff costs).

C.5. Fund Balance and Commitments

Commitments 47 per cent of the fund balance.

64. UNIDO commitments are not recognized as expenses in IPSAS-compliant financial statements. They amounted to 189.6 million euros at year-end. In 2017, commitments accounted for 47 per cent of the UNIDO fund balance, tying up financial resources accordingly. This will result in a cash outflow in future years. The trend is shown in Table 11.

	Year ended 31 December				
	2014 (restated)	2015	2015 (restated)	2016	2017
Fund balance					
million euros	228.6	348.6	347.3	399.2	404.9
percentage change	*8.1 %*	*52.5 %*	*53.5 %*	*14.9%*	*1.4%*
Commitments					
million euros	125.4	154.6	154.6	180.8	189.6
percentage change	*25.5 %*	*23.3 %*	*23.3 %*	*16.9%*	*8.8%*
percentage of fund balance	55.2 %	44.3 %	44.5 %	45.3%	46.8%

Table 11: Fund balance and commitments (source: Notes 14, 20)

C.6. SAP user rights

My team examined segregation of duties.

65. My team used special software to examine whether user rights relating to postings, approval, orders and payment release comply with segregation of duties. Based on this testing, I concluded with reasonable assurance that UNIDO has a reliable internal control system in place to ensure completeness, occurrence, measurement, regularity and disclosure in the 2017 financial statements.

Authorizations in SAP checked by "CheckAud".

66. UNIDO deploys a SAP Enterprise Resource Planning (hereinafter "ERP") system for bookkeeping and other core business functions. System users need authorizations defined by their activities and responsibilities. My team followed up again on initial audit results by means of the "CheckAud for SAP Systems" audit software and checked authorizations for user administration and financial accounting granted to 193 selected key users of UNIDO Headquarters and field offices.
The analysis showed that UNIDO followed my recommendations of the last years. Nevertheless, there is still some room for further improvement as described below.

Employee data is subject to data privacy.

67. Employee data is subject to data privacy. Access to electronic official employment records should be granted only to those officials who have legitimate reasons to view such records by virtue of their official functions.

SAP stores a wide range of employee data.

68. SAP summarizes employee data such as 'Personal Data' and 'Basic Pay' in infotypes such as 0002 and 0008. Infotypes, in turn, are stored in SAP systems in the tables PA0000 to PA0998. The infotype number corresponds to the number in the table name.

Some transactions offer easy access to employee data.

69. Authorized users can access these tables with transactions such as SE16, SE16N and SE17. Information about which infotype contains which employee data can easily be found on the internet.

Many users can access employee data.

70. My team checked which user names were authorized to access employee data in UNIDO's SAP system via transactions and found that SE16 comprised 90 users with access, SE16N comprised 70 users with access and SE17 comprised 29 users with access.

Many users have no legitimate reason for access.

71. Only 12 of the authorized users belong to HRM, staff which has legitimate reasons to view employee data records. Among the other users, many belong to other organizational units or are consultants and thus do not appear to have legitimate reasons to access employee data.

Recommendation(s).

72. I recommend that UNIDO check which users need to access employee data using SAP transactions.
Furthermore, I recommend that UNIDO block access to employee data in the SAP system for such users who do not have legitimate reasons to view these data.

Management's response.

73. Management accepts the recommendation(s). ITS pledged to review, analyse and reduce the number of authorized users where viable.

D. Detailed Findings for 2017

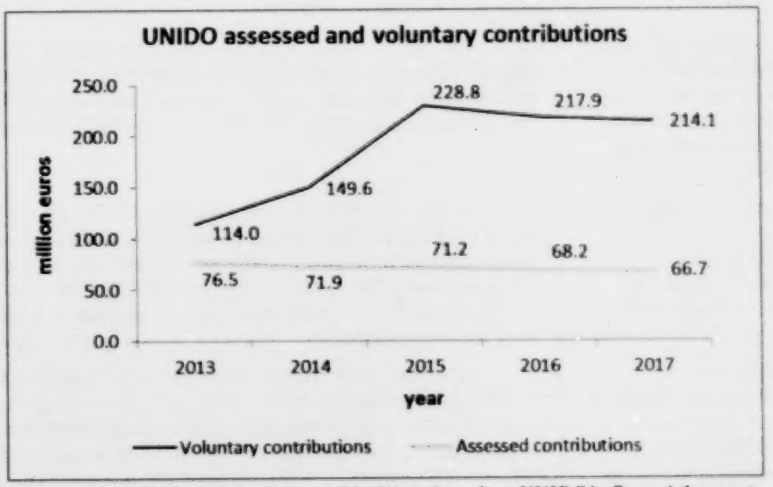
D.1. Programme Support Costs

Audit Approach.

74. I reviewed the reimbursement procedure and practice of Programme Support Costs (hereinafter PSC) with the objective of assessing the efficiency and effectiveness of the allocation and measurement process. I evaluated the procedure and modalities for the reimbursement of PSC and the transparency of the calculation process.

In the last years, UNIDO's volume of voluntary contributions has grown to 76 per cent of the total resources.

75. In the last years, regular budgets of international organizations have often been subject to zero real growth. At the same time, demand for the organizations' services has been growing, resulting in increased voluntary contributions. UNIDOs voluntary contributions have been increasing significantly from 114 million euros in 2013 to 214.1 million euros in 2017. In these years, the volume of voluntary contributions has grown to 76 per cent of the total resources.



Source: compilation of the External Auditors based on UNIDO's financial report

This expresses a high appreciation for its operations but might have negative impacts on the organization.

76. Increasing voluntary contributions broaden UNIDO's scope of action and express a high appreciation for its operations. In combination with a shrinking regular budget, however, they might have negative impacts on the organization and lead to a significant change in the funding model.

Most voluntary contributions are earmarked.

77. Most donors earmark a contribution to specific programmes and projects. UNIDO is not allowed to use such funds to supplement regular budget resources in order to meet the cost of administrative services or to use these funds for other assignments.

UNIDO's core functions are financed by assessed contributions.

78. UNIDO's core functions such as management, administration, IT and procurement services have to be financed by assessed contributions. The same is true for the cost of project implementation not covered by donor payments. Limitations in

regular budget resources impose management constraints and strict cost-control measures on all budgetary expenditures.

An adequate PSC scheme is thus of high strategic importance for the organization.

79. UNIDO's PSC reimbursement scheme is intended to cover the burden on UNIDO's regular budget caused by the implementation of donor projects. This approach is guided by the fundamental principle of full cost coverage that has been adopted not only by UNIDO but by the United Nations family as a whole. On the other hand, UNIDO finds itself in a competitive situation with other organizations offering comparable project services with relatively low support cost rates. An adequate PSC scheme is thus of high strategic importance for the organization.

A PSC Taskforce is working on this issue since February 2018.

80. Against this background, the review of PSC policy was considered a management priority for 2018. A PSC Taskforce has been working on this issue since February 2018. The main objective is to minimize the impact on the regular budget resources for technical cooperation programmes by increasing cost recovery. Additionally, a transparent mechanism for tracking, monitoring, recording and charging of direct costs shall be established. The expected results are the mobilization of additional financial resources for operational budget within the new PSC and cost recovery frameworks of both UNIDO and the donors and to contribute to increasing capacities to improve the quantity and quality of services in an efficient and effective manner.

I examined the progress being made so far.

81. I examined the progress being made so far and would like to highlight the importance of full cost awareness to the long-term sustainability on UNIDO operations in the following paragraphs.

D.1.1. Reporting the workload

UNIDO's PSC policy stipulates to record working time in the Cross-Application Timesheet System (CATS).

82. UNIDO's PSC policy stipulates under Chapter 15 to record working time in the UNIDO Cross-Application Timesheet System (CATS) in cases where support costs include reimbursement for the work of expert services provided by UNIDO regular staff. CATS was implemented in 2013 as part of SAP implementation.

UNIDO piloted the use of CATS. However, CATS is not considered to be user-friendly as it is currently implemented.

83. So far, UNIDO has piloted the use of CATS for selected staff on sample projects that require the need to record working time and associated costs. However, CATS is not considered to be user-friendly as it is currently implemented. Therefore, according to Management, the majority of the UNIDO staff perceives it as burden to record working time for the purpose of time recording and cost controlling. Management itself has expressed doubts whether CATS would be appropriate in the current set-up.

Without stable information about the time consumed, UNIDO is lacking a reliable approach to charge PSC.

84. However, only the effective use of a regular time recording system would provide the necessary information to get a reliable picture of working time spent on programme and project activities. Without stable information about the time consumed on programme and project activities, UNIDO is lacking a reliable approach to charge PSC. At the moment, UNIDO is not fully in a position to assess whether its current PSC scheme is adequate.

UNIDO should take all efforts to assess the effective cost induced by project implementation.

85. UNIDO should take all efforts to assess the effective cost induced by project implementation. As a first step, the internal costs relating to a specific project should be clearly defined and be derived precisely. On this basis, cost should be comprehensively captured and assigned to the respective projects and activities. This will provide greater clarity which PSC scheme would be necessary to compensate the additional strain on regular budget. It would also provide more transparency for donors and Member States to explain the need to improve cost coverage.

Recommendation(s).

86. UNIDO should make sure that the working time of project managers and all other supporting services provided for the execution of projects is recorded appropriately. This would be an important step towards effective cost accounting to be used to assess the resources consumed by programme and project activities.

Management's response.

87. The recommendation is partially accepted. UNIDO will assess the impact and cost/benefit on the ERP system and related policies for both Time recording system (such as CATS) and cost accounting system during 2018. This will be reported to Executive Management with recommendations.

EA response.

88. The coverage of project cost is of fundamental importance for UNIDO's future sound financial basis. Therefore, I see no alternative to use effective means to record working times and costs. If Management considers the current system insufficient, it should take timely action to improve or replace it.

D.1.2. Weakness in full cost recovery

UNIDO's Constitution provides strategic guidance.

89. UNIDO's Constitution specifies that PSC, arising from the implementation of projects funded from voluntary contributions, are to be reimbursed by the source of financing of such projects, and to the extent the latter is not covering the totality of these costs, by the Organization's regular budget.

UNIDO "Programme Support Costs Recovery Policy" which took effect on 1 January 2017 sets criteria for the reimbursement of PSC and their accounting.

90. The "UNIDO Programme Support Costs Recovery Policy" (DGB/2016/14) which took effect on 1 January 2017 sets criteria for the reimbursement of PSC and their accounting. The policy fixes two standard options:

- 13 per cent rate applied to the actually incurred expenditures (including commitments) of the programme/project. The PSC reimbursement is normally charged to the funding grant, unless the funding agreement with the donor specifies otherwise; or
- a reduced, minimum 7 per cent rate covering indirect cost and a mandatory charge of all direct costs. The latter shall only be chosen if the resulting total PSC reimbursement is not lower than the one resulting from the prior option.

A cost measurement study revealed that full cost recovery required a PSC rate of 32 per cent

91. UNIDO's latest determination of its PSC took place in 2010 by a cost measurement study carried out by Deloitte based upon costs observed in 2009. Deloitte stated that UNIDO's technical support costs were significant higher than UNIDO charges from donors. The cost measurement study calculated as support cost rate a percentage of 32 for UNIDO's total project support in 2009. In order to monitor the development of the organization. Deloitte recommended repeating the study on a regular basis.

Actual PSC rate does not fully cover the administrated costs of the organization.

92. UNIDO did not make substantial own efforts to update the figures of the PSC study; there has also been no further study since then. Nevertheless, it is obvious that the PSC rate charged to donors does not fully cover the administrated costs of the organization. As a result, support costs arising by projects funded from extra-budgetary resources have to be subsidized by the organization's regular budget.

Recommendation(s).

93. UNIDO should make efforts to increase transparency and enhance monitoring and timely reporting on the development of PSC reimbursement income.

Management's response.

94. During late 2018–2019, UNIDO plans to implement a system for full cost recovery including ERP system and policy changes.

EA Response.

95. I appreciate the action planned by Management. It should ensure full transparency on specific actions taken and the progress achieved.

D.1.3. Further developing UNIDO's PSC strategy

Exceptions from the aforementioned PSC scheme are made in cases where negotiations with a donor results in agreements.

96. Exceptions from the aforementioned PSC scheme are made in cases where negotiations with a donor results in agreements for a lower percentage charge or for a specified sum for programme supports costs, e.g. special funding agreements with major donors, such as the Global Environment Facility (GEF) Trust Fund, the Multilateral Fund for the Implementation of the Montreal Protocol (MLF), the World Bank and the European Union.

The average PSC reimbursement rate is approximately 11 per cent for 2017.

97. UNIDO generates the highest revenue from a PSC reimbursement rate between 7 per cent and 9.9 per cent. Apart from these PSC reimbursement rates UNIDO receives the reimbursement for the administrative core unit costs under the agreement of the Multilateral Fund. Management considers this lump sum as revenue from PSC under the operational budget. Under this precondition, the average rate across all projects is approximately 11 per cent for 2017.

The following table only shows the reimbursement based on definite PSC rates following a percentage classification.

PSC rate	2013 - euro	%	2014 - euro	%	2015 - euro	%	2016 - euro	%
<7%	471,681.79	4%	727,404.58	7%	526,374.07	3%	300,733.92	2%
7% – 9.9%	5,538,398.97	**46%**	3.859,300.66	**38%**	5.978,243.40	**38%**	7,275,065.63	**48%**
10% – 12.9%	2,796,422.39	23%	2.809,185.85	27%	4.518,280.17	29%	3,057,320.88	20%
13%	3,230,251.71	27%	2,822,609.12	28%	4,566,439.86	29%	4,472,117.99	30%

Indication of source: figures were provided by UNIDO

Exceptions to the standard options are only possible upon the approval of the Director-General.

98. Exceptions to agreed standard PSC rates require the approval of the Director-General (DG). The request for such an approval shall be submitted in writing by the Director of the requesting Department to the Director-General through the Director Department of Finance. Any such request shall provide inter alia evidence why the proposed exception is needed. I observed certain weaknesses in this justification process. Some of the reviewed approval requests did not state any reasons for the required lower support cost rates or some of the given reasons were weak. Any explanations or descriptions why the proposed exception is needed were lacking.

I am aware of the restriction on PSC schemes imposed by donor interests.

99. I am aware of the restriction on PSC schemes imposed by donor interests and of their strategic importance for the whole of United Nations funds, programmes and specialized agencies. However, this should not prevent UNIDO from counteracting the risks caused by insufficient PSC rates. I am of the opinion that the consequences for UNIDO's resources will be more and more rigorous over time. This is a mere consequence of both the rising share of voluntary contributions and the shrinking regular budget. It is of crucial importance that UNIDO's Management and Member States are aware of this development.

UNIDO has limited options at hand. As all of these have limitations, it is important to consider all available options.

100. Under these circumstances, UNIDO has only a limited number of options at hand. It could consider to:

i. reduce the burden on the regular budget by further increasing the efficiency of its support services for project implementation;
ii. adapt PSC rates in a consistent manner and decrease reductions and exceptions where possible;
iii. increase the share of direct project cost to be paid by donors and thereby reducing the need to invoice flat charges for overhead cost; and
iv. liaise with other United Nations organizations to develop a realistic perspective for achieving the common goal of full cost coverage.

Given the underlying conditions, each of these options has obvious limitations. Therefore, it is important to consider how to make best use of potentials of all lines of action available. I would like to recall that an effective cost assessment is a precondition for all of them.

Recommendation(s).

101. The PSC strategy to be further developed by UNIDO should include

- **ensuring a transparent basis for decisions that lead to deviations from agreed PSC rates and an increased deficit risk of projects; and**
- **making best use of all possibilities to increase cost coverage offered by increasing efficiency, further developing PSC rates, putting more focus on direct costing and cooperating within the United Nations family.**

Management's response.

102. Efforts will be made to issue a policy for Direct Cost Reimbursable (DCR) with a common framework for donors. UNIDO will also consult with donors and pilot where necessary the eligibility of Direct Cost Reimbursable (DCR) to maximize PSC recovery during 2018 onwards.

EA response.

103. I appreciate the intention of UNIDO management to take specific action on this issue. I take note of the focus UNIDO is about to put on DCR development. I reiterate that the effectivity of this approach should be closely monitored and complementary action may be necessary over time.

D.2 Internal Control, Risk and Performance Management

Internal Control System is of the outmost importance for every organization.

104. A functioning and effective internal control system (ICS) is essential for addressing and mitigating risks and to help ensure that the organization is effectively working towards the goals that stakeholders and senior management have defined.

Audit scope.

105. My team audited UNIDO's internal control system along the COSO Internal Control – Integrated Framework, departing from an analysis of UNIDO's Internal Control Framework (ICF). Secondly, my team focused on the various oversight functions providing management with the information needed to align operations with overall priorities. One of the key priorities is the assessment and effective management of risks. In a third step, we assessed the main assurance providers and their functioning within the system of internal controls. I included in my analysis UNIDO's instruments to oversee and assess the performance of its operations given the need to spend tight financial resources in a way that generates a maximum of value and to demonstrate UNIDO's ability to contribute effectively to global industrial development goals.

D.2.1. Internal Control Framework

In 2013, UNIDO issued the "Internal Control Framework".

106. In 2013, UNIDO issued the revised ICF that outlines the Organization's corresponding principles and deals with the internal environment, risk management, control activities and monitoring.

ICF is outdated and does not reflect the ICS in place.

107. My team found, that the ICF is out-dated and does not reflect the current ICS in place. Although defined as a "living document" to be regularly updated in order to "reflect modifications to management processes and systems", the ICF has not been updated since 2013. Reforms such as the ensuing implementation of the Programme for Change and Organizational Renewal (PCOR), the SAP-based ERP-system, several structural reorganizations, or the establishment of an Audit Advisory Committee went unrecorded. This coincides with the fact that neither ownership of the ICF nor its further development and amendment have been institutionalized and allocated within UNIDO as a regular and continuous task.

There is little evidence that the ICF was fully implemented at the time.

108. There is little evidence that the ICF was fully implemented at the time. This is particularly evident in the case of risk management, as set out in Chapter III of the ICF, which is still at the early stages of development (see below). It contradicts the ICF's initial statement, i.e. to offer "an overview of the extensive documentation relating to the different aspects of internal control" as applied in 2013.

Ambiguities in the description of cooperation and coordination can lead to weaknesses in internal controls.

109. Descriptions of cooperation and coordination between the actors of the ICS often remain fragmentary, e.g. the interaction necessary along the planning, monitoring and evaluation cycle. There is a considerable risk that such ambiguity leads to weaknesses in the way internal controls function due to the absence of clearly defined interfaces among the different actors and well-established processes. The challenge is to assign specific roles and to provide for efficient coordination without leaving unnecessary gaps duplications.

Recommendation(s).

110. I recommend updating and assessing the ICF's implementation, paying specific attention to the efficient coordination of and cooperation between the relevant roles and functions and integrating the results of the risk management exercise.

Management's response.

111. Recommendation is accepted. In this context, the RMC will review, within the framework of its mandate, the elements of the ICF that relate to risk management (section III and annex III and IV) and recommend updates, if required. It will further ensure that its results are integrated into the updated ICF.

EA's response.

112. I welcome UNIDO's willingness to review and update the elements of the ICF relating to risk management and to ensure that the results of the risk management exercise are incorporated in the ICF. However, I would like to emphasize the need for clearly assigning the responsibility of regularly updating and further developing the ICF to an organizational unit vested with the necessary powers to implement the changes and to oversee the relevant processes and actors. I also advise to assess, the effective implementation of the ICF, once it has been updated.

D.2.2. Risk Management

UNIDO's risk management strategy follows the "Enterprise Risk Management (ERM) Policy", issued in 2013, and the ICF.

113. UNIDO's risk management strategy follows the "Enterprise Risk Management (ERM) Policy", issued in 2013, and the ICF. The purpose of the ERM Policy "is to embed a systematic and consistent approach to identifying, assessing, and managing risks faced by UNIDO". It sets out the Organization's ERM objectives, principles and assigns overall responsibility for ERM implementation to the Director General, supported by the Executive Board that has the task of overseeing the implementation. UNIDO's ERM Policy refers back to the ICF as a complementary document providing "the organizational arrangements for designing, implementing, monitoring, reviewing, and continuously improving risk management and the related processes throughout the Organization."

Information about necessary components available.

114. In principle, together with the ERM Policy an updated ICF bears the potential to establish an organization-wide and systematic risk management. Especially the ICF contains very relevant information about necessary — but still to be implemented — components of a functioning risk management, such as objective-setting, event identification, risk assessment (including identification and analysis) and registers, risk response and tolerance, roles and best practices.

UNIDO faces major internal and external challenges that need to be managed.

115. UNIDO faces a number of major internal and external challenges and risks which need to be managed, such as the continuous strain on the regular budget that leads to an increased dependency on external services, frequent reorganizations, and continuous competition with other (UN) service providers, as well as further financial risks set out in this report. At institutional level, however, an almost exclusive focus was put on the risk of further membership withdrawals. Our audit revealed that risk management as a systematic and holistic approach is still at the early stages of development. Risk assessment and mitigation are neither consistently applied across the organization nor systematically documented. So far, there has been no instrument at hand that permits overseeing the organization's complete risk landscape and defining priorities for possible counteraction. Thus, no reasonable assurance can be given that the control mechanisms in place contribute efficiently and cost-effectively to controlling and mitigating UNIDO's risks.

Roles and relationship between the RFP and the RMC for setting up and implementing the risk management remain unclear.

116. In order to address the issue of implementing an effective risk management, in 2017, UNIDO established a Risk Management Focal Point (hereinafter RFP) and a Risk Management Committee (hereinafter RMC) to assist the RFP. The relationship between the RFP and the RMC in setting up and implementing the risk management system and their respective roles remain unclear. In order to permit a well-coordinated approach for setting up and implementing the risk management and to organize a smooth cooperation between these actors, the corresponding roles and remits need to be clarified in the underlying terms of reference.

Furthermore, the RPF function should be placed at an adequate corporate level, e.g. within the Office of the Director-General.

117. Moreover, the RFP function is currently assigned to the Department of External Relations because membership withdrawals have been identified as the most critical threat to UNIDO. While this may be seen as an adequate step to get things moving, it does not fully reflect the necessary approach to deal with all relevant risks in a systematic, continuous and professional way. Risk management will only then unfold its positive effects if a permanent processing and analysis of internal and external

information, communication and liaison with internal and external stakeholders, as well as preparation of relevant policies and decisions is assured. This requires a permanent function that should be placed at an adequate corporate level, e.g. within the Office of the Director-General. It should provide senior management with a cross-cutting and comprehensive overview to appropriately address key risks and determine the desired level of risk tolerance.

118. So far, the RMC has not had appropriately qualified support staff to accomplish its technical tasks, such as developing a set of appropriate risk management tools or devising a systematic approach towards risk mitigating measures.

Recommendation(s).

119. I recommend speeding up and enhancing the activities of setting up and implementing UNIDO's risk management and clearly assigning the relevant roles and responsibilities as well as dedicated staff at an adequate corporate level. I further recommend institutionalizing risk management as a permanent process whose results need to be factored into planning and control processes. Due attention should be given to a transparent and efficient coordination of the implementation process.

Management's response.

120. Recommendation is accepted. The EA's recommendation "to assign this task as soon as possible to dedicated staff with an adequate organizational positioning" (i.e. direct access to the DG) is indeed in line with the "COSO Enterprise Risk Management – Integrating with Strategy and Performance." In particular, a dedicated staff would facilitate data mining and analysis of risks, to provide the necessary comprehensive input to the RMC for it to make judgement on the risk identification and analysis and take decision on mitigation measures. The outcome of this exercise (timelines and results) will be determined by the provision of such dedicated staff to the task by management considering the current financial constraints of the Organization.

EA's response.

121. I welcome UNIDO's willingness to implement our recommendations. To set up and implement UNIDO's risk management as soon as possible, it is necessary to clearly assign the relevant roles and responsibilities as well as allocating sufficient resources.

Internal controls need to be applied in high risk areas with particular care.

122. Risk management should be combined with a proper assessment of the implementation of internal controls. Internal controls are indispensable and need to be applied in high risk areas with particular care.

Responsibility and accountability could be brought together in an annual Statement on Internal Controls.

123. Responsibility and accountability need to be clearly assigned to provide for an effective management of risks and internal controls. This could be included in an annual Statement on Internal Controls (SIC) attached to the financial statements. This SIC must be based on a framework by which the organization can review, document and assure the effectiveness of its internal control systems.

The United Nations will implement the Statement on Internal Controls and base it on the COSO Framework.

124. The United Nations have initiated action to implement the SIC. The COSO Internal Control – Integrated Framework serves as the conceptual framework when defining the internal control components and control activities for the mitigation of related risks (A/72/213, paras. 38 to 51). In pursuing this initiative, the United Nations established an internal control advisory group that included both academic experts and practitioners to function as an expert advisory group with a view to assisting the United Nations in the implementation of the SIC.

Recommendation(s).

125. I encourage UNIDO to develop a SIC.

Management's response.

126. The implementation of the SIC will be considered by RMC along with the review of ICF.

D.2.3. Performance Management

UNIDO introduced an integrated performance and results framework (IRPF) to enhance

127. In recent years, UNIDO has undertaken considerable efforts to develop and refine its instruments to describe and assess the effectiveness and efficiency of its operations. Together with the medium-term programme framework (MTPF) (2016–2019), UNIDO introduced an integrated performance and results framework (IRPF). The framework is intended to enhance results-based management and to

results-based management.

increase the transparency of UNIDO's contribution to promote inclusive and sustainable industrial development (ISID) and the achievement of Sustainable Development Goals (SDGs). For this purpose, a set of indicators was developed to reflect the state of global ISID progress (level 1), country results with UNIDO support (level 2), UNIDO's programme management effectiveness (level 3) and its organizational effectiveness and modernization (level 4). As from the 2016 annual report, the development of indicators has been shown in a UNIDO scorecard which is also published on a quarterly basis. Since the introduction of the IRPF, UNIDO has revised the underlying indicators and established corresponding baselines and targets. In 2017, UNIDO developed an updated strategic plan, the MTPF 2018–2021, which takes important steps towards greater integration of the programmatic, management and results frameworks by establishing a direct correspondence at each of the four levels between the IRPF and the MTPF. Hence, the IRPF is intended to fully represent the results side of the strategic plan of the Organization. Following the changes envisaged by the new MRPF, new indicators are being developed to reflect these changes by an IRPF Task Force in a dedicated project.

Moreover, UNIDO gathers data on specific goals pursued by technical cooperation and their achievement.

128. In a more project-oriented approach, UNIDO gathers data on specific goals pursued by technical cooperation and their achievement. Project managers may develop relevant and specially customized performance indicators; they also provide the data which are processed by UNIDO's Enterprise Resource Planning System (ERP). Moreover, the results of UNIDO's projects and activities are subject to mandatory evaluations which assess whether the expected output has been delivered, whether project management was satisfactory and what have been the lessons learned. The responsibility for these evaluations remains with the independent evaluation unit.

I would like to encourage UNIDO to continue with the development of indicators along the three ISID pillars.

129. Although UNIDO has reached an impressive intensity and diversity of performance assessment activities, I would like to draw the attention to a shortcoming which can affect their value for the Organization and which still persists in spite of recent improvements. This value mainly depends on whether UNIDO's contribution to global ISID goals can be credibly demonstrated. As UNIDO states itself, only level 2 indicators deal with this question in a systematic way. At present, they are formed by counting countries with positive developments in areas, which were — according to the project manager's assessment — addressed by UNIDO projects. These mainly statistical indicators do not reflect the relation between successful projects and their specific effects on a country's development. As a consequence, they neither provide for strong evidence that projects have actually contributed effectively to UNIDO's strategic goals nor can they show how their effects develop over time. It would be necessary to define the impact of these projects in a specific, measurable, time-bound and comparable manner in order to assess their value and sustainability. For this purpose, it is important to align project-specific and organization-wide measures with a clear focus on the organization strategic goals. I encourage UNIDO to pursue the development of specific, measurable, time-bound and comparable indicators along the three ISID pillars. Moreover, a consistent picture of UNIDOs performance would be facilitated when overall responsibility for performance assessment were strengthened.

The SG's reform papers also address these areas.

130. Secretary-General António Guterres has pointed out the importance of management culture for implementing mandates as two out of six areas for improvement in regard of general management. In order to pursue that target, UNIDO needs to further develop a profound set of key performance indicators.

Recommendation(s).

131. An effective assessment of UNIDO's contribution to ISID and its ability to reach its strategic goals is of vital importance for an efficient use of tight resources and the organization's perspective. To enhance the credibility and relevance of UNIDO's current approach, I recommend:

- further developing key performance indicators that permit determining how project performance and results effectively contribute to the achievement of UNIDO's overall strategic goals;
- defining clearly how and under whose responsibility performance assessments provided within UNIDO could be effectively consolidated to form a consistent picture.

Management's response.

132. Recommendation is accepted. Since the introduction of the new MTPF, a great deal of work has gone into updating and fine-tuning the existing IRPF and associated indicators, with the aim of defining a tool that is able to comprehensively and credibly tell UNIDO's performance and contribution story. The final product will provide narratives and metrics around representative cases that contribute to the improved capturing of the real value proposition of UNIDO, and complement these with a concise scorecard based on related indicators that are specific, measurable, achievable, relevant and time-bound (SMART). In full alignment with best practices in the United Nations system as outlined in a recent JIU report, UNIDO's work on the new IRPF starts by more clearly setting the vision of UNIDO, establishing results chain logic to connect what UNIDO does to ISID objectives and SDGs, and recognizing systems components, before establishing SMART indicators and integrating monitoring and evaluation to promote both single and double-loop learning. This work on the IRPF and RBM will continue throughout 2018 and will include: the production of a DG Bulletin to establish the policy; a set of new tools to guide staff on establishing and monitoring the causal link towards results; the updated set of IRPF indicators; the alignment of quality, results monitoring mechanisms, independent evaluation activities as well as updated TC guidelines; and cross-organizational capacity building workshops to ensure better preparedness across the Organization to a corporate culture shift from a project- and output-based approach to one that is programmatic and oriented towards higher-level results (outcome and impact).
After UNIDO has been restructured in February 2018, the Quality Monitoring Division was integrated into the Strategic Planning Department (SPQ), which, in fact, is responsible for the overall device of the IRPF. After this integration, SPQ now is in the position to further develop the key performance indicators as indicated in the recommendation.

EA's response.

133. I appreciate the ongoing deliberations and refinements of UNIDO's tools with the aim to further improve the assessment of its performance. These efforts need to follow a clear pathway and place focus on eliminating impediments for the consistency and credibility of demonstrating the results of UNIDO's work. I welcome the advised shift to a programmatic and higher-level results oriented approach which has the potential to provide better assurance that resources are used to maximize the achievement of the Organization's strategic goals. I also welcome the consolidation of responsibilities to provide more transparency on the Organization's contribution to global development results.

D.2.4. Assurance Providers

I welcome the new developments since last year's audit.

134. Internal auditing shall provide independent and objective assurance and is therefore essential for the functioning of UNIDO's operations.
As of 1 January 2018, UNIDO has created the new Office of Evaluation and Internal Oversight (EIO) by merging the Independent Evaluation Division from the Office of Independent Evaluation and Quality Monitoring with the Office of Internal Oversight and Ethics. The ethics-related functions have moved to the Office of the Managing Director under the Directorate of Corporate Management and Operations. This reorganization has the potential to create synergies, improve coordination and communication, strengthen the independence of the assurance function and ensure an efficient allocation of the scarce resources.

Nevertheless, UNIDO's internal audit function is still understaffed.

135. Following my recommendations, the long-standing lack of staff resources for UNIDO's internal audit function (hereinafter IA) has been mitigated last year. Still, I have serious doubts about whether the current staffing level enables the responsible unit to appropriately cover the relevant high and medium risk areas. The consequences of scarce resources even tend to be aggravated in phases of internal reorganization. According to the formula developed by the Joint Inspection Unit (JIU), a range of six to eleven professional audit staff would be needed to provide for a properly equipped internal audit function. With currently two professional auditors, UNIDO's internal audit function is far below the indicated minimum level. Given that UNIDO has

	199 auditable entities in over 146 countries, the eight audits performed in the biennium 2016—2017 provide limited audit coverage only. As a result, in its recent work plan the IA reiterated this weakness, and highlighted that the current level of resources posed a risk to adequately covering the audit universe identified in its risk assessment in a reasonable time.
Follow-up on audits to be improved	136. The current staffing level does not permit on-the-spot checks to follow up on the effective implementation of audit recommendations. In the current practice, audit management software is used to verify the implementation with proof of evidence provided by the auditee. In order to properly assess the implementation and provide reasonable assurance on the results achieved, on-the-spot checks may be necessary depending on the complexity of the subject.
So far, the Internal Auditor has neither comprehensively audited the ICF nor the ERM Policy.	137. So far, the IA has not audited UNIDO's ICF in its entirety. Nonetheless, it has identified shortcomings in the ICF and the ERM Policy during its integrated country office audits and issued recommendations, which I fully support, pertaining to both, i.e. RMC should ensure that risk management guidance and tools are developed and put in operation as soon as possible. However, the serious limitations of the ICF / ERM Policy, due to their delayed implementation, have never been subject of a comprehensive internal analysis and reporting to senior management. This is a key weakness in UNIDO's governance and control system. The IA must be fully enabled to comply with its Charter concerning the provision of independent assurance on the effectiveness and efficiency of the governance, risk management and internal control systems.
UNIDO's evaluation function is understaffed.	138. Against the background of a continuously increasing workload and a decrease in the number of professional staff (from four in 2010 to three — including the chief of division — in 2017), the evaluation function also suffers from scarce resources. In the biennium 2016–2017, it has overseen more than 100 mandatory project terminal evaluations. These are nearly twice as many projects as in the 2014–2015 (52), and nearly quadruple as in 2012–2013 (26), which increases the risk of a less thorough quality management of independent project evaluations, and reduces the focus and the resources for aggregated evaluation products (synthesis, country level, thematic evaluations).
The independent evaluation unit has established a Management Response Sheet.	139. In order to follow up on the implementation of its recommendations, the independent evaluation unit has established the Management Response Sheet which requires UNIDO managers to document their acceptance/non-acceptance of the recommendations as well as steps taken and state of implementation. Due to resource constraints, it does not verify the information given.
Understaffing constitutes a substantial risk.	140. In my opinion, the understaffing of UNIDO's independent assurance providers still represents a key weakness in UNIDO's governance and control system and a substantial risk for the Organization.
Recommendation(s).	**141. I recommend properly staffing UNIDO's internal audit and evaluation function in order to provide reliable assurance to UNIDO's management on the effectiveness and efficiency of the governance, risk management and internal control systems. The staffing level of both functions should also permit follow-up activities, if deemed necessary, to achieve reasonable assurance on the effective implementation of their recommendations.**
Management's response.	142. The recommendation has been noted. The Internal Oversight Division intends to recruit a third professional auditor in 2018. Specific steps to accelerate the implementation of recommendations will also be discussed with the Audit Advisory Committee. The Independent Evaluation Division's understaffing and under-resources situation is under discussion with management. A proposal is under preparation for the establishment of the Evaluation Trust Fund, to enable synergies from pooling together project evaluation budgets and developing further evaluation products. The staffing situation in EIO and its divisions is intended to be further improved to the extent possible, given the current budgetary constraints.
EA's response.	143. I appreciate UNIDO's readiness to strengthen the independent assurance functions and the intention to establish the Evaluation Trust Fund. Even though budgetary constraints seem to be a valid argument why a better staffing situation

cannot be easily achieved, undetected weaknesses or shortcomings in UNIDO's governance and internal control systems can lead to much bigger — also financial — damage to the Organization compared to the investment in adequately staffed assurance functions.

Audit Advisory Committee established.

144. Following proposals made by my predecessor, I recommended that an Audit Advisory Committee (AAC) be established. The Industrial Development Board decided to establish the Committee and approved the ToR at its 44th session in November 2016. The committee took up its work in January 2017.

Importance of the Audit Advisory Committee.

145. I wish to emphasize again the importance of having an AAC in place, which continuously contributes to improving the effective functioning of UNIDO's control structures and supports an independent and effective External Audit. The Committee has already defined priorities clearly pointing into these directions.

Recommendation(s).

146. To ensure this, the role and the scope of the Committee should be adequately reflected in UNIDO's rules and regulations and in the ICF.

Management's response.

147. As per Board decision IDB.44/Dec.4, the Audit Advisory Committee was established as a subsidiary organ of the Industrial Development Board. Its role and scope are laid down in the terms of reference (Annex to document IDB.44/9) and have been endorsed with the same decision. The establishment of the AAC will be properly reflected in the updated ICF and in an appropriate regulatory document.

D.3 Information and Communications Technology

D.3.1. ICT risk management

According to the Risk Management Standard ISO 31000, an organization should set up a risk register.

148. According to the Risk Management Standard ISO 31000 "All activities of an organization involve risk. Organizations manage risk by identifying it, analysing it and then evaluating whether the risk should be modified by risk treatment in order to satisfy their risk criteria." A risk register should be in place to record information about identified risks.

In 2014, UNIDO began to establish a UNIDO ERP risk register.

149. In 2014, the UNIDO ICT unit began to establish a 'UNIDO's ERP Risk Register' and identified ICT risks. The UNIDO ICT unit submits the annual risk register to the responsible Managing Director. Moreover, a Risk Management Committee was set up to address the ERM implementation in November 2017 (cf. D.2.2).

In the ICT risk registers for 2014 and 2015, a further risk assessment covering general ICT issues was lacking.

150. As the ICT risk registers for 2016 and 2017 are still work in progress, my team analysed the documents of 2014 and 2015.
My team found out that these documents only encompassed ERP topics, such as "Failed Changes after deployment to production system", "ERP processing bottlenecks", "Obsolete Documentations", "ERP Data Quality & Inconsistencies". A further risk assessment covering general ICT issues, e.g. on important areas such as ICT infrastructure, information security/cyber security or backup and disaster recovery plan was lacking. My team did not find further documentation.

Also other potential ICT risks should be included in the risk register.

151. Other potential ICT risks may also have a negative impact on UNIDO's information resources and working ability. Such risks with which UNIDO is actually confronted include operating out-dated proprietary developed applications and inadequate information security procedures. In the face of these risks, a thorough analysis of threats and of required action is crucial. Management pointed out that both risks and adequate responses were subject to regular internal discussions. However, my team did not find a clear indication of decisions and measures explicitly designed to counteract the impact of clearly defined risks.

Recommendation(s).

152. I recommend regularly updating the ICT risk register and also including general ICT risks e.g. concerning ICT infrastructure in addition to the risks relating to the ERP system.

Recommendation(s).	**153. I recommend identifying and assessing comprehensively ICT risks and required actions and preparing the results in a way so that it can effectively be incorporated into UNIDO's overall ERM.**
Management's response.	154. UNIDO Management agrees with the recommendation(s) and points out that the incorporation of ICT risks and its management in the overall ERM framework is a function of the Risk Management Committee established by IC/2017/22.
EA response.	155. I appreciate that UNIDO's ICT management sees the need of a regularly updated ICT risk register and its incorporation in UNIDO's overall ERM.

D.3.2. ICT governance

Introductory remarks.	156. UNIDO's ICT is a key resource to support core business activities. Particularly in times of increasing risks e.g. caused by cyberattacks and misuse of data, a well-functioning, effective and reliable ICT structure is crucial for UNIDO's operational performance, long-term reliability and transparency.
Good starting position but still room for improvement.	157. My team found that ICT functions well within the available resources. However, my team found room for improvement regarding the underlying conditions for ICT governance and operations.

D.3.2.1. ICT standards

My team found that UNIDO has not adopted international standards or best practices so far.	158. UNIDO has not adopted any internationally accepted standard, such as "ISO/IEC 38500", an international standard for corporate governance of information technology, or "ISO/IEC 2700x series", the international standards for information security management or best practice neither for ICT Governance in general or information security so far. As a result, UNIDO does not fully profit from the common experiences and knowledge developed in the global ICT community. As a result, management cannot be sure that all options have been used to maximize ICT efficiency and security.
I encourage UNIDO to adapt international standards.	159. In my opinion it is essential to implement suitable standards or best practices to manage and run an ICT environment properly and effectively.
Recommendation(s).	**160. As the most urgent task in this regard, I recommend adopting an accepted Information Security Standard as an initial step to introduce an Information Security Management System (hereinafter ISMS).** **I recommend considering how international standards and best practices for ICT Governance and Information Security could be established strengthening UNIDO's ICT Governance.**
Management's response.	161. UNIDO has not officially adopted any standard or best practice. Nonetheless, it leverages essential elements of the commonly used IT Infrastructure Library (hereinafter ITIL). Most ICT staff has been recently trained in ITIL. As is the case with other United Nations entities, diligently conforming to an Information Security Standard by designing, creating and operating ISMS typically requires a sustained number of dedicated Information Security Professionals, independent from the operational ICT Department. UNIDO believes that the creation of such function and/or team would be beyond the resources granted to UNIDO.
EA response.	162. I appreciate that UNIDO leverages essential elements of ITIL. Nevertheless, my team could not find any evidence of how its core functions and processes such as capacity planning, resource management or performance management were reflected or documented in UNIDO's business processes. UNIDO should consider contributing the needed resources to the project to implement international standards in the short term to increase future performance and security.

D.3.2.2. ICT policy and documents

Requirements for an ICT policy framework.

163. Moreover, an up-to-date set of strategic and operational documentations is needed to support clear guidance to ensure a proper ICT environment. Such an ICT policy framework guided by best practices should contain documents about assignments that have to be supported or executed by ICT, documentation of ICT projects, a set of user manuals and plans and procedures for ICT security.

UNIDO made considerable efforts to improve its ICT policy framework. I appreciate the steps taken so far. Nevertheless, some important contents are still lacking.

164. In 2015, I recommended issuing and implementing an official document outlining UNIDO's ICT policy. In November 2017, UNIDO issued an updated "UNIDO Information and Communications Technology Policy". This document presents considerable progress as a lot of important contents were updated or added. However, the whole set of ICT-related policies and guidelines in UNIDO do not fulfil the demands of an ICT policy framework guided by best practices. In particular there is still no ICT strategy that includes tangible goals of UNIDO's ICT utilization, business requirements to be met by ICT, organizational structures, required personnel, applied norms or existing procedures and systems. UNIDO should proceed to improve its strategic and operational ICT documentations.

Recommendation(s).

165. I recommend preparing and implementing an ICT strategy that includes the above-mentioned contents. I also recommend ensuring a complete and up-to-date set of user manuals and administration manuals in regard to all relevant ICT processes.

Management's response.

166. Subject to availability of resources, UNIDO agrees to continue improving its strategic and operational ICT documentation.

EA response.

167. I encourage UNIDO to put more focus on improving the strategic and operational ICT documentation. For this issue, UNIDO should provide appropriate resources. This is even more true as I and other key players such as JIU repeatedly point out the importance of ICT strategy and documentation.

D.3.2.3. ICT management and budgeting

Establishing a Chief Information Officer as executive manager for ICT is best practice.

168. One of the most important elements needed to establish a well-defined and properly working ICT is the clear assignment of responsibilities and clear management structures. For this reason, following best practices, many institutions have established a Chief Information Officer (CIO) as executive manager for ICT. A CIO is usually independent of the organization's operating departments and reports directly to senior management. The CIO has the overall responsibility for all ICT matters, including strategy, budget and the organizational unit in charge of ICT. The interests and requirements of the business units concerning ICT should be raised by representatives of the units in a joint working group or committee with the CIO. UNIDO has no CIO.

UNIDO has no CIO.

UNIDO plans to establish an ICT Working Group.

169. UNIDO provided my team with a draft information circular that addresses the establishment of an organization-wide "Information and Communications Technology Working Group". It seems to be unclear if and when the working group will be approved.

The ICT budget in the years up to 2015 was just sufficient to ensure the ongoing operation but did not ensure significant mid-term or long-term investments in ICT.

170. UNIDO informed my team that in the years up to 2015, the ICT budget was just sufficient to ensure the ongoing operation but did not ensure significant mid-term or long-term ICT investments. Due to an actual budget release restriction in recent years (see table below), the release rate was approximately 30 per cent below the planned ICT budget. Even though this reduction could be partly set off in the course of the years, actual expenditures were considerably lower than the requirements assessed by the ICT unit. So the expended budget in 2016 was only 58 per cent of the original requirements, in 2017, it was only 78 per cent (see last column in the table):

Year	Requirement	Approved Budget	% (of Requ.)	Released budget	% (of Appr. Budget)	Expended (with obligations)	% (of Rel. Budget)	% (Expended to Requirements)
2014	3,558,050	3,700,850	104	3,494,607	94	2,603,721	74.5	73.2
2015	3,657,450	3,814,350	104	3,080,682	81	3,646,679	118.4	**99.7**
2016	3,951,500	3,656,400	93	2,690,451	74	2,304,072	85.6	58.3
2017	3,941,400	3,647,700	93	2,585,842	71	3,073,275	118.9	78.0

The table shows the regular budget for ICT, Information and Communication Technology, expenditure items, approved P&B documents.

UNIDO should analyse carefully the consequences of systematic cuts in the ICT budget.

171. As I have already pointed out on other occasions, UNIDO needs to set up an ERM system and thereby prioritize and assess all and not only ICT related risks within the organization. In the light of the overall risk assessment, UNIDO should reconsider the appropriateness of a continuous budget cut. In our audit, we did not find any evidence that the impact of such budget cuts had been discussed and incorporated in the decision-making process. UNIDO should carefully analyse the impact of systematic cuts in the ICT budget. Adapting the budget to well-founded requirements may be necessary to avoid risks.

Recommendation(s).

172. I recommend introducing the position of a CIO as a responsible staff function.

Recommendation(s).

173. In addition, I recommend accelerating the implementation of the planned "ICT Working Group", which should be chaired by the recommended CIO.

Recommendation(s).

174. I also recommend strengthening the senior management's focus on ICT issues, e.g. by periodically addressing them in the Executive Board.

Management's response.

175. Given the current resource levels, a discrete CIO is not provided for in the current UNIDO Secretariat Structure for 2018–2019.
UNIDO will pursue the establishment of the ICT Working Group, to be chaired by a senior official and to address issues as outlined above.

EA response.

176. The current UNIDO Secretariat Structure 2018–2019 does not reflect the need for a responsible CIO function. I wish to underline the relevance of my recommendations for strengthening the senior management's focus on ICT and analysing the impact of continuous cuts in the ICT budget.

D.3.2.4. Information security

Information security.

177. As other large institutions, UNIDO is faced with increasing cyberattacks and other threats targeted at information resources and working ability. Up to now, UNIDO has been spared of serious damages in this regard. However, it is questionable whether the existing approach will be sufficient to protect UNIDO's information resources in the future.

UNIDO made considerable efforts to strengthen its information security.

178. UNIDO made considerable progress in alerting to information security risks, such as online awareness training. In addition, after a long period of vacancy, an ICT security staff member has been recruited to support the ICT unit; he started his work in January 2018. I welcome these efforts as important steps in the right direction to strengthen information security at UNIDO.

UNIDO has no Chief Information Security Officer.

179. Nevertheless, some important issues have still not been resolved. UNIDO has not appointed a Chief Information Security Officer (CISO) whose main functions would be to initiate, coordinate, assess and control information security subjects, to investigate IT security incidents, to advise IT administration and management in terms of information security and also to report directly to senior management the status of information security. Some of these tasks, which are currently not or not fully conducted by UNIDO, could be carried out by competent external service providers.

UNIDO has not adopted an ISMS.

180. Moreover, UNIDO informed us that due to lacking resources, it did not adopt a recognized information security standard or plan to implement an ISMS. The internationally accepted standards on information security management are the ISO/IEC 2700x series. These standards help organizations to achieve a secure status

of their ICT and their information assets, e.g. by developing and implementing an ISMS. As a systematic approach, ISMS includes a risk-management-based procedure covering ICT structures, processes, ICT systems and other relevant elements.

In that regard, UNIDO faces some more issues.

181. UNIDO did also not define its protection requirements for business processes that are needed to support ICT systems and ICT applications. Information security objectives that serve as a general alignment are only partially addressed. Concerning the currently operated ICT landscape in place, UNIDO does not run vulnerability assessments or penetration tests due to lacking resources. UNIDO's ICT disaster recovery facility is still not completed. Most of the statements and procedures concerning ICT in the business continuity plan are outdated.

Scarcity of resources.

182. I gained the impression that over the last years, UNIDO's information security activities have been affected by scarce resources and the lack of a systematic requirement-oriented approach.

Recommendation(s).

183. UNIDO's requirements for information security should be met in a structured environment. For this purpose, I recommend implementing an Information Security Management System and applying the best practice approach of the ISO/IEC 2700x series in an adequate scope and in a timely manner.

184. UNIDO should make sure that ICT security issues are recognized and addressed in a reliable, effective and timely manner. It is a precondition, however, that the central responsibility for this elementary task is assumed actively within the organization. It is essential to clearly assign the function of a CISO, who should not be part of ICT management itself but is authorized to report directly to senior management on major information security issues.

Management's response.

185. As is the case with other United Nations entities, diligently conforming to an information security standard by designing, creating and operating an ISMS typically requires a sustained number of dedicated information security professionals. These need to be independent of the operational ICT Department. UNIDO believes the creation of such function and/or team would be beyond the budgeted resources of UNIDO.

A Memorandum of Understanding with United Nations International Computing Centre (UNICC) that may provide ICT services, such as tasks involving ICT security, is being finalized and will be leveraged, if sufficient funding is made available.

EA response.

186. I consider it important that UNIDO meets its requirements for information security in a structured environment such as the recommended best practice approach of the ISO/IEC 2700x series. I am aware that the implementation of an adequate ISMS and the function of a CISO initially generates additional costs. I am of the opinion that this investment will pay off by reducing the risks of severe damages to UNIDO's assets, security and reputation. Therefore, I recommend taking the steps needed for this purpose.

D.4. Procurement

My team audited the procurement processes at UNIDO.

187. Procurement is a critical function regarding the long-term success of UNIDO activities under the technical cooperation programmes, the field offices and at Headquarters (HQ). Many decisions taken by departments have a procurement implication that can impact the overall cost of carrying out the decision. The procurement processes and system procedures for carrying out the procurement functions are laid down in the Procurement Manual (hereinafter PM).

Audit approach.

188. My team reviewed procurement cases of 2015 and 2016 with the total values as follows:

Year	Value in €
Field offices 2015	**3,441,771.10**
Headquarters 2015	129,019,219.44
2015	**132,460,990.54**

Field offices 2016	**3,328,895.62**
Headquarters 2016	**141,030,086.95**
2016	**144,358,982.57**

D.4.1. No procurement plan in place

Procurement plan as envisaged in the PM not in place.

189. According to the PM, a procurement plan should be in place. It should cover inter alia the description of goods and services needed and the estimated quantities, delivery dates and funds. The procurement plan should be the basis for UNIDO to establish and monitor key performance indicators and to identify and mitigate risks that have the potential to have an impact on procurement targets. UNIDO could not provide the procurement plans for 2015, 2016 and 2017.

A procurement plan is important to identify procurement risks and act upon accordingly.

190. A procurement plan is needed to monitor the procurement process, to identify procurement risks and to determine how actual performance compares with planned activities, and thus to alert the pertinent departments and adjust the procurement plan accordingly. Furthermore, it enhances the transparency and predictability of the procurement process. Procurement planning is essential for the timely solicitation of quotations, bids or proposals, cost efficiency and award of contracts. It increases e.g. the potential for favourable long-term agreements. To facilitate effective procurement planning, there is a need for cooperation and coordination between the field offices and HQ.

Recommendation(s).

191. I recommend that UNIDO set up, analyse, monitor and regularly update a comprehensive procurement plan to make sure that all procurement principles are complied with, risks are mitigated and potentials for increasing efficiency are used. UNIDO should utilize the SRM module or a similar IT supported solution.

Management's response.

192. UNIDO accepts the recommendation and intends to pursue its efforts to develop a procurement plan.

D.4.2. No homogeneous data filing system in place

In general, UNIDO uses SRM/MM module in SAP for procurement services.

193. UNIDO uses the Supplier Relationship Management and Material Management module (hereinafter SRM/MM module) in SAP for managing procurement requirements. As a result, the whole process covering shopping carts, purchase orders and tender documents should be thoroughly documented in SAP. However, UNIDO still needs other supplementing systems such as an Open Text server or even a hard copy file system for storing other supporting documents e.g. evaluation reports.

Two envelope procurement procedure for high value procurement.

194. All offers for other procurement procedures are normally received through the SRM/MM module except for the two-envelope centralized procurement procedure that is mandatory for high value procurement (more than one million euros). Therefore, UNIDO uses the two envelope centralized procurement procedure. The latter is characterized by two sealed envelopes – one containing the technical offer and one containing the commercial offer. The offers are submitted on paper only.

UNIDO did not order further customization of the SRM/MM module to deal with this special way of transmission due to cost restraints.

195. UNIDO did not order further customization of the SRM/MM module to deal with this special way of transmission due to cost restraints. An alternative solution with Open Text is currently being developed to scan and save all documents for the two-envelope system on SRM and the Open Text servers instead. Nevertheless, my team found cases in which documents have neither been scanned nor saved on the servers, but rather in a hard copy folder. In other cases, the documents have been saved partly on the SAP server and partly on the Open Text server. UNIDO confirmed this and informed my team that all essential procurement documents would be uploaded in Open Text in the future.

I welcome the decision to establish a

196. I welcome the decision to establish a homogeneous data filing system in the future where all documents are available on one data filing system. However, the current lack of a homogeneous data filing system makes it difficult to track the

homogenous data filing system.	procurement process and determine whether all relevant documents are complete and all requirements have been met.
Recommendation(s).	**197. I recommend continuing the efforts to develop and establish a filing system which ensures that all relevant tender documents for procurement procedures can be saved on a homogeneous data filing system.** **198. With a view to ensuring transparency, I further recommend strengthening internal communications to ensure that all relevant documents are complete and maintained in accordance with PM.**
Management's response.	199. UNIDO accepts the recommendation and will continue its efforts to ensure that all relevant documents were complete and to develop and establish a filing system.

D.4.3. No uniform description of procured products in place

Further requirements for using the SRM/MM module in SAP.	200. According to the SRM/MM module, the type of goods and services to be procured for each contract need to be described by the project managers in given "Product Group Categories" and in addition be characterized with a product description in free text fields.
Lack of description criteria leads to inconsistent applications.	201. My team found that UNIDO does not provide the project managers with any standard texts on how to describe these goods and services in the SRM/MM module; in particular the "Product Group Categories" are not fully specified. Given that, UNIDO can only determine the services and goods procured for by evaluating the underlying technical specifications, making it more time-consuming and potentially inconsistent.
Advantages derived from uniform descriptions.	202. In my opinion, UNIDO should have a uniform description of goods and services to gain an overview of all procurement process at all times. This uniform description of the goods and services in the SRM/MM module will also simplify the process of exchanging goods and services between the various field missions and Headquarters and thereby permit the Procurement Services Division (hereinafter PRO) to explore options for combining the goods and services to be procured.
Recommendation(s).	**203. I recommend drawing up a catalogue for the uniform description of regularly purchased goods and making it available to all project managers.**
Management's response.	204. UNIDO takes note of the recommendation(s). Since the SAP/SRM has already a catalogue of goods and services integrated and interlinked with the budget lines and GL accounts, and given that the current catalogue codes are provided by the United Nations Global Marketplace (UNGM), creating another catalogue in parallel may result in additional discrepancies. In addition to the available system catalogue, material, guidance documentation and training provided to the users, PRO shall pursue its efforts to review, analyse the use of the product codes and descriptions, provide additional rounds of training on how to identify, select and use the most appropriate product code and product description.

D.4.4. No contract management in place

Responsibilities of the PRO according to the PM.	205. According to the PM, PRO shall supervise UNIDO's contract management. But since there is no contract management tool in place, PRO lacks important information for the decision-making process, such as technical conditions of the contracts or data on whether services and goods are delivered in time. To obtain a better overview, PRO is currently developing a contract management tool.
PRO should continue with its efforts to develop a monitoring system.	206. I am of the opinion that the level of knowledge of, and resources within PRO about the financial and technical handling of the contracts is inadequate for the decision-making process. PRO should therefore give high priority to further developing the envisaged management tool.
Recommendation(s).	**207. I recommend further developing the contract management tool for processing contracts, introducing it as soon as possible and updating the PM accordingly with mandatory application of the tools.**

Management's response.

208. UNIDO takes note of the recommendation(s). PRO will continue its efforts to develop a contract management tool and thereby work closely with other departments. By the time the functionalities of the tool are known, the PM will be updated accordingly.

D.5. Financial Accounting

D.5.1. Asset Management - Real Time Location System

Last year's audit continued.

209. In my last year's audit, I found that the General Support Service (hereinafter GSS) had no complete overview of the volume of inventory items. I emphasized the need for conducting the inventory exercise of assets and property, plant and equipment (hereinafter PPE) more carefully.

Meanwhile, UNIDO has launched a Real Time Location System which proved to be a success.

210. Meanwhile, UNIDO has launched a Real Time Location System (hereinafter RTLS) at Headquarters in Vienna (hereinafter HQ) by placing a beacon on every item in order to track each asset and its movements. The system was tested and rated as successful. Currently, RTLS covers about 7,000 assets located at HQ.

UNIDO plans to expand RTLS as expensively as possible.

211. UNIDO administers a considerable amount and variety of assets located not only at HQ but also at its field offices (hereinafter FO) worldwide. Also, UNIDO manages a wide range of assets used in technical cooperation (hereinafter TC) in beneficiary countries in various world regions. As UNIDO is responsible for Buildings Management Services (hereinafter BMS), it also administers common assets held by all Vienna-based organizations (hereinafter VBOs). Thus, UNIDO intends to also launch the system to all relevant parts of the Vienna International Centre (VIC). Therefore, UNIDO intends to expand RTLS to cover BMS assets also to FO and TC.

Benefits derived from the envisaged expansion of RTLS.

212. I expect RTLS to provide the anticipated benefits for the organization, such as an improved utilization rate of existing assets, increased productivity through more accurate data recording or security and theft prevention. Therefore, I support the view that at a further stage RTLS should be expanded to FO, TC and all parts of VIC where commonly held assets of VBOs are located and controlled by UNIDO. VBOs could benefit from all advantages that are associated with RTLS.

Currently, different funding options to procure necessary funding for the expansion of RTLS.

213. UNIDO estimates the funds required at 95,745.00 euros to launch the system at VBOs and at 1,082,750.00 euros to expand it to FO and TC. UNIDO's financial resources from regular budget are limited. Currently, UNIDO is exploring different options to procure necessary funding such as the UNIDO Major Capital Investment Fund (hereinafter MCIF), Special Account of Voluntary Contributions for Core Activities (hereinafter SAVCCA) or Unutilized Balances Appropriations (hereinafter UB). UB normally occur when Member States pay assessed contributions later than the biennium to which they relate. These assessed contributions cannot be used for the budget purposes originally planned and have to be returned to all Member States on a prorate basis. Member States have announced occasionally that they might reinvest UB in a suitable core project of UNIDO.

Funding by UB would be most welcome.

214. I am of the opinion that UB would be an appropriate and preferable financial resource as RTLS meets the requirements for funding through UB since the project

- has to be funded through assessed contributions;
- generates future cost savings and added value;
- funding is required only once; and
- apart from running expenses (e. g. electric power and maintenance), no substantial further costs occur.

Recommendation(s).

215. Therefore, I recommend launching RTLS in all areas of the VIC to cover every commonly held asset after all VBOs have been committed to funding the project with their respective portion. UNIDO should step up efforts to negotiate with the other VBOs and highlight the benefits associated with RTLS.

Recommendation(s).

216. I recommend considering if Member States might reinvest their UB in UNIDO to implement and expand RTLS. UNIDO should inform relevant Member States about

	the successful launch of the system at HQ, its benefits and the need to expand RTLS to FO.
Management's response.	217. UNIDO agrees with the recommendation(s) to launch the RTLS in all areas of VIC to cover commonly held assets and intended to collaborate with BMS in its implementation. UNIDO also welcomes the recommendation that management consider if Member States might reinvest their UB in UNIDO to implement and expand RTLS, to cover BMS and FO.

D.5.2. Global Banking Project

UNIDO takes part in the Global Banking Project (GBP).	218. In 2012, UNIDO initiated the Global Banking Project (hereinafter GBP) to standardize and automatize payment processes through worldwide operating financial institutes, the Citibank and Standard Chartered Bank. Currently, GBP is rolled out in 27 countries, especially for transactions referring to payroll.
Strategic objectives of the GBP.	219. In doing so, UNIDO intends to reduce transaction fees and to accelerate, standardize and facilitate administrative processes. In particular, UNIDO wants to reduce the Organization's dependency on the United Nations Development Programme (hereinafter UNDP). The latter currently acts as a paying agent for UNIDO against a fee in countries in which UNIDO has no access to the local banking system.
Number of imprest accounts increased.	220. My team and I found that imprest accounts increased considerably to 85 in 2017. This trend will continue for various reasons: First, GBP aims to replace local bank accounts. Therefore, UNIDO currently increases the collaboration with Citibank and Standard Chartered Bank. Second, UNIDO terminates the collaboration with UNDP in such cases where payments can be processed through GBP. This increases the number of imprest accounts. UNIDO should pursue the adopted course and make increasing use of GBP selected banks. The workload to administer payment processes through UNDP will decrease since reconciliations will no longer be needed.
More manual entries cause some additional workload for FIN/APT staff.	221. As part of the project, the Department of Finance - Accounts, Payments and Treasury Division (APT) continuously insources the administration and execution of all electronic payments to Headquarters. Since GBP encompasses two financial institutions, the implementation causes some additional workload for process payments. This effect is increased by the fact that vendors (counterparts and third parties) do not have access to SAP. On average, approximately 6,000 new vendor master data need to be administered each year.
Monetary benefits in spite of two more posts needed.	222. APT conducted an internal feasibility study and found that two posts would meet the requirements for entering and maintaining data. I consider the GBP as a strategic project to streamline and standardize UNIDO's worldwide payment processes. Even with additional resources needed, GBP provides monetary and process-related benefits to the organization, in particular when these resources are deployed in a centralized unit specialized in this task. The aforementioned study showed full cost recovery for internal staff to enter vendor and bank master data amounting to 30 euros each case, which is equivalent to approximately 60 per cent of cost savings in comparison to the charges of UNDP. Lower payment transaction expenses and costs to administer vendor master data will contribute to lower costs for implementing projects.
Recommendation(s).	**223. I recommend continuously replacing local bank imprest accounts by worldwide operating financial institutions as provided by GBP.**
Recommendation(s).	**224. Furthermore, I recommend establishing a centralized unit to capture, enter and maintain vendor and bank master data into SAP.**
Management's response.	225. UNIDO agrees with the recommendation(s) and intends to consider the establishment of a separate unit, dedicated to the GBP transactional and master data maintenance activities. Management points out that such a consideration will require a careful assessment of the incremental costs, cost savings resulting from reduced transactional fees and securing sustainable funding either from RB/DO or direct

cost-recovery resources. Furthermore, it will also require an amendment of the rules/instructions and possible consultations with the Member States.

D.5.3. Bank identification and postings on general ledger accounts

Bank identification and postings on G/L accounts.

226. APT currently administers 17 house bank accounts. Every account should be mapped to a specific G/L account. According to Rule 1071.1.(e) of the Financial Regulations and Rules, bank accounts that are no longer required shall be closed.

My team found some discrepancies in the G/L accounts.

227. During the course of my audit, my team found that the Bank of China and Citibank of China are mapped to the same G/L account, namely 110120 – Bank of China. Moreover, the Bank of Tokyo Mitsubishi and Citibank Japan LTD are mapped to the same G/L account, namely 110121 – Bank of Tokyo Mi.

Recommendation(s).

228. I recommend mapping Citibank of China and Citibank of Tokyo to separate G/L accounts and closing the bank accounts held at the Bank of China and the Bank of Tokyo Mitsubishi as they are no longer needed.

Management's response.

229. UNIDO agrees with the recommendation(s). APT intends to close the accounts with Bank of China and Bank of Tokyo Mitsobishi as soon as possible.

Follow-up.

230. I appreciate UNIDO's efforts to solve the pending issues and expect separate G/L accounts to be established by no later than 1 January 2019.

D.5.4. Accounts receivables

Accounts receivables.

231. My team and I audited accounts receivable, mainly from other United Nations organizations, such as the United Nations Office at Vienna (hereinafter UNOV) and private sector customers, such as Catering Services Cost (hereinafter CSC) review receivables management. Receivables from UNOV amounted to approximately 2.8 million euros and from CSC to approximately 219,000 euros.

Considerable receivables are overdue.

232. The underlying analysis showed that considerable receivables have been overdue since almost six years. As a result, irrespective of whether it is an international organization or a private sector company, the counterpart uses UNIDO's resources without an equivalent payment. As UNIDO has already rendered services or disbursed funding, UNIDO needs to assess the receivables. So UNIDO should assess at each balance sheet day whether the owed amount may be recovered or if there is an objective indication that the due receivables cannot be collected in full. Depending on the outcome of this evaluation, UNIDO should take the necessary steps, such as claim immediate payment or write off the receivables. Moreover, UNIDO might establish an appropriate offsetting and dunning process. Furthermore, there is room to improve the collaboration among United Nations organizations to fulfil mutual obligations.

Recommendation(s).

233. I recommend UNIDO taking efforts to collect all outstanding receivables. For this purpose, UNIDO should make use of the options mentioned above.

Management's response.

234. Management agrees with recommendation and plans to intensify efforts to resolve open issues to close old outstanding receivables.

D.5.5. Travel management

My team audited travel management within UNIDO.

235. My team conducted an audit of UNIDO travel management. Travel is essential for UNIDO to deliver on the organization's expected projects. My team assessed whether the current policies, procedures and tools in place are conducive to the cost-effective management of travel.

Travel process is managed within SAP with the supervision of FIN/APT.

236. Travellers raise a travel request in SAP employee self-service with the possibility to request an advance payment up to 100 per cent of the approved expenses. APT approves the outgoing payment. Travellers are requested to submit travel expense reports within 15 days after completing the trip. APT reviews any open advances on a monthly basis and identifies outstanding expense reports. As long as staff members do

	not submit the reports, the trip costs remain as "open advances" in the system and therefore remain "uncleared".
My team found a considerable backlog in clearing open travel advances.	237. Having completed their travel, staff members have the duty to forward a travel claim within a certain time limit. Staff members often do not meet this requirement. As of 9 February 2018, APT has been confronted with 1,732 open advances. These comprise submitted travel expense reports that are not finalized since e.g. documents are lacking or the expense report is pending in the system and travel expense reports are not submitted in time. That refers to 733 cases out of the total amount.
Recommendation(s).	**238. I recommend publishing the respective rules and regulations in a staff circular again to raise staff members' awareness of the respective employee's duty.**
Management's response.	239. UNIDO agreed with the recommendation(s) and intended to remind staff of the travel rules and recovery process.
Specifics for non-staff members should be taken into account in the travel process.	240. UNIDO also arranges trips for non-staff members, e. g. participants of an advanced training or experts that attend a conference. Travel assistants process all arrangements (travel request and expense report) in SAP on behalf of these travellers. Non-staff members also need to submit all necessary documents that are needed for the travel expense reports, but often fail to do so. Existing rules to recover advances are not applicable since attendees are no employees. As a result, wrongly paid travel advances might affect the Organization's financial resources. Therefore, I am of the opinion that allotment holders should be responsible in first place to provide support for the entire travel process. If they fail to do so, the resulting financial risk could be reflected in future budget instalments for the projects concerned.
Recommendation(s).	**241. I recommend holding allotment holders responsible for non-staff members/travellers to submit all necessary documents and placing non-staff members/travellers who fail to comply with the rules and regulations on a blacklist consequently.**
Management's response.	242. UNIDO accepts the recommendation and intends to alert allotment holders to these issues.
Analysis showed room for improvement for "Home Leave" (H) and "Repatriation Grant" (R).	243. Travel within UNIDO comprises two categories and 22 travel types, also including "H" for Home Leave (staff serving outside their home country) and "R" for Repatriation (staff eligible for repatriation upon completion of service). Staff members who are entitled to the travel type H and R mostly belong to international staff with a fixed term contract. My team also found that travel type H currently amounted to 30 open advances, of which 27 were without outstanding expense reports. Travel type R amounted to five items, all of them with outstanding expense reports.
Specifics for home leave should be taken into account in the travel process.	244. Most staff members opt for a lump sum instead of requesting an air ticket and do not always submit an expense report afterwards. In these cases, there is little reason to doubt that the lump sum has been used in accordance with the underlying purpose. This process could be facilitated by using other methods e.g. gaining the needed evidence, such as using automatically produced reports from the time recording system.
Specifics for retirees should also be taken into account to facilitate the travel process.	245. As retirees have left the organization, they do no longer have access to the SAP Travel Module. As a consequence, travel assistants have to prepare travel expense reports on their behalf to close the process in SAP and clear the open advances. In these cases, the travel cycle should be finalized automatically. This can be done as soon as HRM provides the end of duty information to APT.
Recommendation(s).	**246. I recommend monitoring special travel types — especially home leave — to accelerate and streamline the process and clearances of entitlement travel. Respective rules should be amended to meet an automatized and up-to-date travel process in SAP.**
Recommendation(s).	**247. Furthermore, I recommend triggering expense reports automatically — especially for home leave and repatriation/separation — to settle open items.**
Management's response.	248. UNIDO welcomes the recommendation to streamline the expense report process and intends to follow up with HRM to reassess necessary requirements documenting entitlement travel.

UNIDO recently introduced a "Fast Track Travel Mode".

249. UNIDO recently established a "Fast Track Travel Mode". It is used for trips with one destination that causes only ticket costs, DSA and four terminal expenses. UNIDO intends to process expense reports faster. This intention is not met in cases in which the traveller requests an advance lump sum of less than 100 per cent of the entitled amount. FIN/APT has to approve a residual balance.

Recommendation(s).

250. I recommend monitoring the impact of the fast track travel recently established on expense reports and amending rules for travel advances accordingly so that staff members can only opt for no advance or a 100 per cent advance.

Management's response.

251. UNIDO agrees with the recommendation and will emphasize staff to use Fast Track Travel Mode advances; for non-staff UNIDO will reassess the business needs to best facilitate the process.

E. Follow-up on Findings and Recommendations of Last Year and Prior Years

31 recommendations pending.

252. The 2016 external audit report included 31 pending findings and recommendations. In November 2017, Management updated the list of follow-ups to show the progress of implementing these recommendations.

List evaluated.

253. My team evaluated the list to ensure continuity and institutional memory. We discussed all items with the relevant staff members and reviewed the relevant documents. Annex 1 of the report provides information about the implementation status of all pending recommendations.

I appreciate Management's actions taken.

254. I appreciate the actions taken by Management to implement recommendations. In the course of our future audit activities, my team will examine UNIDO progress on these fields at my own discretion.

F. Other Topics

Cases of fraud or presumptive fraud.

255. IOE informed me about two cases of fraud or presumptive fraud. One of these cases is still pending and no damage has been caused. The established damage of the other case amounts to 9,925 euros.

No other cases were found during the audit.

256. During our audit, my team did not find any other cases of fraud or presumptive fraud.

Losses / write-off.

257. In 2017, PPE items totalling 6,000 euros were written off due to loss or theft.

Ex-gratia payments.

258. In 2017, UNIDO made ex-gratia and special claims payments totalling 65,000 euros.

G. Acknowledgement

Acknowledgement.

259. I wish to express my appreciation for the cooperation and assistance extended by DG, Management and UNIDO staff. I am very grateful for their assistance during the entire external audit process.

[signature]

Kay Scheller

President of the Bundesrechnungshof
Germany
External Auditor

V.18-01597

ANNEX

INDEPENDENT AUDITOR'S REPORT

CERTIFICATE OF THE EXTERNAL AUDITOR ON THE ACCOUNTS OF THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2017

To the President of the Industrial Development Board

Opinion

I have audited the financial statements of the United Nations Industrial Development Organization (hereinafter "UNIDO") which comprise the statement of financial position (statement 1) as at 31 December 2017 and the statement of financial performance (statement 2), statement of changes in net assets (statement 3), cash flow statement (statement 4) and the statement of comparison of budget and actual amounts (statement 5) for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the UNIDO as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are described in the *Audit Procedure* section of my report. I am independent of the UNIDO in accordance with the ethical requirements that are relevant to my audit of the financial statements and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Information other than the Financial Statements and Auditor's Report Thereon

The Director General is responsible for the other information. The other information comprises the current report on the financial situation of UNIDO, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Director General, in accordance with UNIDO's Financial Regulations, is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the UNIDO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate UNIDO or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the UNIDO's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the UNIDO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the UNIDO's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the UNIDO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on other legal and regulatory requirements

Furthermore, in my opinion, the transactions of the UNIDO that have come to my notice or that I have tested as part of my audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the UNIDO and legislative authority.

In accordance with Article XI of UNIDO's Financial Regulations I have also issued a long-form report on my audit of the UNIDO

[*Signed*]

Kay Scheller
President of the Federal Court of Auditors
Germany
External Auditor

9 April 2018

Follow-Up of the Findings and Recommendations made in the Previous External Audit Reports

Ref.	Findings & Recommendations	UNIDO responses	EA comments
(1)	(2)	(3)	(4)
External Audit Report for 2014			
# 27	UNIDO does not prepare the financial statements using the ERP system. Instead, the trial balance generated by the ERP system is transferred to an Excel worksheet. In addition, there is neither documentation nor a systematic process established for updating the worksheets. **UNIDO should only use the ERP system for accounting and reporting. EA recommended adding the reporting functionality to the ERP system, especially in view of the financial statements.**	BSS will provide the necessary support to Financial Services to implement the recommendation on automating the preparation of the financial statements. The topic is already included in the BSS work plan as a follow up to a recommendation from the European Union 7 pillar verification audit previously conducted by Ernst & Young. ***Status as of 30 November 2017*** In 2017 four additional notes to the financial statements have been completed while the cash flow statement is under development. Our analysis has shown that the automation of the three statements and the implementation of the 10 notes are maximum that could be implemented given the current resources available for improving our ERP system. The remaining notes are being classified complex, requiring heavy programming resources which are currently not available to UNIDO.	**The item is closed.**
# 94	UNIDO BMS, the responsible unit for 'Buildings Management', is the largest operation within UNIDO. VIC has been in operation for more than 35 years. With regard to the centre getting older, BMS underlined that the costs of operating, maintaining and repairing the buildings and integrated installations are increasing accordingly. With regard to the deteriorating situation of buildings and installations, the risk of potential breakdowns is growing. **To address these issues, EA recommended assessing potential risks in connection with the common service 'Buildings Management'; defining clearly BMS mission taking into account the results of the above-mentioned risk assessment; initiating the process of amending and updating the Memorandum of Understanding reflecting the above-mentioned issues and today's situation with regard to the other VBOs; revising the Memorandum of Understanding periodically and amending it, if necessary.**	Management agreed with my findings and recommendation. The recommendation has been noted. ***Status as of 30 November 2017*** The risk assessment of the VIC has been initiated by an external consultancy firm and should be completed by September 2018. This assessment together with the Fire Safety plan will provide important information regarding, among other issues, future investments to be implemented in the VIC in	**EA will follow up on the process.**

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		the near future. Furthermore, BMS is assisting in the technical inspections of the whole VIC as per OENorm 1301 and requested by IAKW. The inspection is carried out building by building and building D has already been completed (the report is available for consultation), some of the recommendations have been presented at the PTWG and reflected in the 2018 list of MRRF projects approved by the MRRF JC (see minutes PTWG). Regarding the existing MoU on common services, UNIDO OSS already approached other VBOs about their interest to review the MoU (see the IC2-2017 minutes, para. 3.7). No feedback has been received so far.	
# 114	The data centre is located in two rooms, separated by an operator room. To always guarantee a proper functioning, two redundant IT systems for UNIDO programmes and data were set up, each in one room. The walls and doors between the rooms are made of wood and thus are not fire resistant. There is no state-of-the-art fire protection system in place such as an automatic fire extinguisher system. In the case of fire, this situation might lead to a total loss of operational capacity and the total loss of all data since the last backup. **EA recommended transferring one of these IT systems to another fire section. An alternative but only provisional solution could be to install a state-of-the-art fire protection system. In order to mitigate these risks, EA recommended reducing the prevailing fire load immediately.**	Management agreed with my findings and recommendation. The recommendation has been noted. ***Status as of 30 November 2017*** In progress. Funding constraints, both regular and extrabudgetary, didn't allow the implementation.	**EA will follow up on the process.** **UNIDO has implemented some recommendations but did not take any further measures.** **Installing fireproof doors and closing the holes in the walls should help to extend the period before fire, smoke and heat spread to the other rooms and the important IT components.**
# 118	The official UNIDO policy for IT and IT security has not been updated since 2011. During this time, several large changes happened in the UNIDO IT environment. **EA recommended issuing and implementing a comprehensive official document outlining UNIDO policy as to IT and taking into account the current state of technology. This major document may be renewed every year in order to include the current changes and to add the planning for the next year.**	Management agreed with my findings and recommendation. The recommendation has been noted. ***Status as of 30 November 2017*** Completed. As per DGB/2017/09 dated 6 November 2017, the UNIDO Information and	**see 2017 EA report D.3.2.2 # 163 – 167.**

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(1)	(2)	(3)	(4)
		Communications Technology (ICT) policy was updated and promulgated.	
External Audit Report for 2015			
# 30	UNIDO documents concerning SAP roles and authorizations do not reflect the CUA concept. These documents neither consider the roles which have been changed, completed and extended since the SAP system implementation. **EA recommended that TIS revise and update the basic documents in co-operation with the departments and, thereby, consider CUA appropriately. Furthermore, it should compile a detailed instruction about the co-operation between TIS and the departments concerning SAP users and authorizations.**	TIS is working on updating manuals and documentation of the SAP roles and authorizations. ***Status as of 30 November 2017*** **Completed**. The SAP roles and authorizations document was finalized.	**The item is closed.**
# 35	The principle of segregation of duties is reflected in the UNIDO Internal Control Framework. **Segregation of duties is still lacking. A culmination of authorizations exists by several users. In order to mitigate this risk, EA recommended that and FIN update the authorizations and bring them in line with the tasks of each user.**	As discussed with and communicated to EA, all the roles were initially assigned during the implementation phase based on the roles and authorization blue print. These have been continuously updated based on the request of the business/key users. The four eye principle has been activated within SAP. Concerning the specific observation of the segregation of duties, there are areas for further improving the authorization concept, especially with regard to the automatic blocking of open items. ***Status as of 30 November 2017*** Completed. The segregation of duties was successfully completed in coordination with FIN.	**The item is closed.**
# 42	The composite SAP_ALL profile contains all SAP authorizations, meaning that a user with this profile can perform all tasks in the SAP system. SAP recommends not assigning this authorization profile to any of the users. **EA recommended checking whether the 15 "service users" are assigned to the appropriate user type and, if so, whether they need SAP_ALL authorizations.**	As discussed with EA, the service users are required to ensure proper functioning of the SAP production system. As part of future authorization reviews, TIS will of course analyse if any of these accounts can be run without SAP_ALL. ***Status as of 30 November 2017*** Completed. The "service users" have been analysed regarding appropriate user type. The number of service users has been further reduced to the extent practical.	**The item is closed.**
# 48	The productive indicator "XPROD" prevents data within the company code from being deleted by the programs for deleting test data. The SAP guidelines recommend that the indicator be set when transferring the development system to the production system. **EA recommended setting the productive indicator to protect the data from being deleted.**	At the moment, the production systems are locked by the SAP transaction code "SCC4". Therefore, direct changes/configuration in the production system is strictly controlled i.e. via change and risk management approval process only. Depending on the results of tests, the company code may be set to "productive". ***Status as of 30 November 2017***	**The item is closed.**

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(1)	(2)	(3)	(4)
		Completed: The "XPROD" indicator has been activated in SAP production system.	
# 66 (see 2014 EA Report # 44)	The ongoing increase in current and non-current voluntary contributions receivable speeded up from almost 60 per cent in 2014 to 92 per cent in 2015. As a result, more than one quarter of UNIDO total assets consist of voluntary contributions receivable. **EA pointed out again that the development might bear risks for the future. Voluntary contributions receivable in 2015 will be spent for technical cooperation programmes in the next years, whereas post-employment benefits are expected to rise continuously over the same period. Once more, EA recommended that Management keep a very close eye on the development over the next years.**	The development of voluntary contributions is an essential indicator of the demand for UNIDO services. It is under permanent scrutiny of Management and regularly reviewed by the policymaking organs. ***Status as of 30 November 2017*** Partially completed: A special effort has been undertaken in 2017 to increase inflow of voluntary contributions for core activities though surrender of unutilized balances of appropriations. The inflow of voluntary contributions continued to be rigorously monitored both from the managerial and financial parts. The demand for TC activities continues, management is exploring innovative ways of financing of the TC delivery structure, including new business model, direct support cost recovery and retention of UBs to support core activities via SAVCCA.	**EA will follow up on the process.**
# 87 (see 2014 EA Report # 59)	The allowance amount for doubtful accounts increased by 1.7 million euros to a total of 91.4 million euros. More than 71 million euros of the allowance refer to doubtful assessed contributions of former Member States. The total outstanding amounts (without former Member States) increased to a total of 32.1 million euros. **Once again, EA reminded the few Member States with significant arrears to fulfil their obligations and to pay due contributions. It is also a question of fairness towards the other Member States to contribute to UNIDO financial health according to incurred commitments. All Member States and Management should enforce the efforts to negotiate payment plans with Member States being in arrears.**	Management confirmed the importance of payment plans and its continued efforts in negotiating such with Member States having arrears. ***Status as of 30 November 2017*** In the year 2016, two Member States have successfully completed their payment plans (Republic of Moldova and Ukraine). Payment plan was signed with Armenia (10 year duration). The payment plan with Kyrgyzstan has been concluded (5 years) in 2017, first instalment partially paid. Armenia paid its second instalment and Costa Rica its seventh's instalment.	**EA will follow up on the process.** **see 2017 EA report C.2.1.2. # 40 – 44.**
# 97 (see 2014	Even though voluntary contributions are most welcome, increasing voluntary contributions and a constant regular budget jeopardize the	Management is fully aware of the need to have the right balance between assessed and voluntary contributions. The current trend in	**EA will follow up on the process.**

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(1)	(2)	(3)	(4)
EA Report # 69)	DG development objectives. Also, included programme support costs do not fully cover the administrative costs of the organization. The additional expenditure for the organization is borne by the regular budget on the expense of all Member States. **EA recommended that Management observe the current and future situation and ensure a balance between voluntary contributions and the regular budget to finance UNIDO. The massive increase in voluntary contributions may help UNIDO to reach its goals but it may also bear risks for the future.**	the entire UN system is a shift away from assessments; the key issue is rather mobilizing funds with a non-tied character. ***Status as of 30 November 2017*** See the status #66/2015.	see 2017 EA report C.2.1.3, # 46.
# 142	Capitalizing a minimum threshold for items above 600 euros is required in the Property Management Manual. Items below the capitalization threshold are recorded as expenses in the year of purchase. Currently, the SAP Asset Management System captures all items above 600 euros. Items with a value below 600 euros will be recorded automatically if they are purchased through the SAP Shopping Cart procedure. Items which are not automatically captured in the system have to be recorded separately for capitalizing. **EA recommended capturing attractive assets below the threshold of 600 euros in SAP Asset Management System as required by Property Management Manual.**	Management took note of the recommendation and stated that this issue will require an assessment of the feasibility of entering such attractive items in the SAP Asset Module and the related workflow. ***Status as of 30 November 2017*** Completed: All attractive assets below the threshold have been recorded and are tracked.	The item is closed.
# 147	For all property, plant and equipment issued to UNIDO country offices, physical inventories verifications should be scheduled and arranged annually. **Physical verification of inventories is an important part of an organization's internal controls over assets. EA recommended removing the discrepancies between these inventory records and raising awareness among staff about the importance of an inventory reconciliation process for the validity of financial records.**	Management pointed out that the field offices are responsible for the physical inventory verification. Therefore, once a year UNIDO Field Offices are requested to update the inventory list. The Headquarters staff could only rely on the results of physical inventory verification by the Field Office. ***Status as of 30 November 2017*** Completed: Yearly inventory verification is currently being carried out in order to remove discrepancies as well as raise awareness of the importance of the inventory reconciliation process for the validity of the financial records.	The item is closed.
# 161	Complementary to my last year's audit on UNIDO BMS, which mainly focused on BMS regulatory framework, missions, overall risks and staffing, this year's audit prioritized	Management took note of my observations and continued to implement new processes and workflows.	EA will follow up on the process.

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	the assessment of its organizational structure and processes. **EA welcomed the appointment of the new BMS chief and the initiative to task an external expert with developing a new and efficient structure for BMS. EA recommended that UNIDO continue to strengthen BMS.**	***Status as of 30 November 2017*** BMS' requirements have been analysed in terms of structure and processes have been streamlined to increase efficiency in operations, use of resources and decision making. The review of the structure of BMS included the assessment of the post/staffing requirements for each area, the redeployment of resources, development of job descriptions and revision of staff profiles. BMS' business continuity is based on the new team/workshop structure which ensures full time functionality of all areas already fully staffed. Upon the completion of the risk assessment in 2018, some minor adjustments to the structure may be necessary based on the work load of specific teams.	**see 2016 EA report D.2. # 122 – 150.**
# 173 (see 2014 EA Report # 103)	In accordance with the Headquarters' Agreement, UNIDO, through BMS, has the overall responsibility for maintaining, repairing and upkeeping VIC complex vis-à-vis the Host Government. As a consequence of BMS role, the sole responsibility includes any changes to VIC, notably the implementation of any construction projects related to and funded by the individual VBOs. This task is not adequately reflected in BMS current set-up. **EA made recommendations, especially to reiterate the overall responsibility and to recruit the required staff.**	Management took note of my observations. ***Status as of 30 November 2017*** The recruitment process is progressing well and with the full support of HRM, 21 out of 42 positions have been filled already. The next reporting period should see and increment on the process to reduce risks in critical areas of responsibility of BMS.	**EA will follow up on the process.** **see 2016 EA report D.2. # 122 – 150.**
# 219 (see 2014 EA Report # 108, # 126, # 127)	The governance structure in UNIDO now urgently needs improvement. It can be considered as unsatisfactory in one part but critical to internal audit. **EA once again recommended providing adequate staffing for the Office of Internal Oversight and Ethics. Additionally, EA continues to recommend establishing an Audit Committee.**	It should be noted that limited staffing has been raised on numerous occasions by various oversight entities; however, due to budgetary constraints, Management has not been able to accommodate this request yet. The issue of an Audit Committee has advanced. ***Status as of 30 November 2017*** The Audit Committee was established and the membership of the AAC was agreed during the 45th session of the IDB in June 2017. The first meeting is took place 17-19 January 2018. Recruitment for all established posts in IOE has been completed and the posts are all	**EA will follow up on the process.** **see 2017 EA report D.2. # 144 – 147.**

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		encumbered. It is hoped that Member States might make funds available for an additional P-post in the 2018-2019 budget.	
External Audit Report for 2016			
# 23	Nine users in the Accounts and Payments Division were authorized to post a payment and also able to remove the payment block. **Such a cumulation of authorizations increases the risk of fraudulent activities. EA recommended that UNIDO examine whether it is necessary that a total of nine staff members are authorized to post and unlock payments and reduce the number to the minimum required.**	UNIDO will remove unnecessary access to create payment vouchers for certifying officers, who also have authorization to release the payment block. There will be an exception with regard to creating replenishment vouchers where only UNIDO internal vendors (imprest accounts) will be allowed in the document entry. This functionality is currently managed by APT and is needed until TRS takes over internal UNIDO cash transfers function along with global banking bank account management. ***Status as of 30 November 2017*** The unnecessary access has been removed by ICT.	**The item is closed.**
# 35	Basic manuals are available for the Production Portal and SAP GUI. For other business processes, in particular such which are carried out periodically such as general accounting, year-end closure, reconciliation, and cleaning, there are no user manuals. **Handling business processes in the SAP system can be difficult and error-prone for users, especially for new staff members. EA recommended that UNIDO make user manuals available for all key business processes and basic activities in all organizational units that work with the SAP system.**	The recommendation is in principle acceptable. As the observation properly states, there are already many manuals available, and not only for finance related processes. However, the production of manuals is a very resource-intensive process. The person should be conversant with the topic, should be a good technical writer and should have the necessary didactical skills. Under the current budgetary constraints it is not possible to set aside significant resources to acquire sufficient specialized expertise and staff on board cannot produce (or even assist the production of) manuals due to the lack of capacity. Therefore, if the recommendation is maintained, only slow progress will be possible in terms of its implementation, since priority must be accorded to sustaining daily operations. ***Status as of 30 November 2017*** During 2017 no sufficient resources were available to expand existing catalogue of the production manuals. Critical processes are covered; others including general accounting, year-end-closure, reconciliation, and cleaning are under construction.	**EA will follow up on the process.**
# 47	The value of assets increased mainly because of increased short-term deposits. Liabilities grew due to increasing employee benefits. This increase has been continuing during the last years. Post-employment benefits are expected to rise continuously in the future resulting in the continuing growth of non-current liabilities. This might have a negative impact on UNIDO total net assets if assets do not grow at the same rate. **The development of employee benefits bears considerable risks for the future. In the current situation, these commitments are not duly taken into account. Once more, EA recommended that Management monitor closely the development over the next years**	Non-current liabilities related to employee benefits grew mainly due to changes in the actuarial assumptions. UNIDO serves these liabilities on a "pay-as-you-go" basis, a method that was recently confirmed by the United Nations General Assembly Advisory Committee on Administrative and Budgetary Questions (ACABQ). According to Management's assessment, the annual servicing costs have peeked or will soon do so due to natural developments of the population and the changes in HR policies and practices in the past years. Nonetheless, Management will continue monitoring the situation closely.	**EA will follow up on the process.**

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	and develop an appropriate approach to ensure future funding.	***Status as of 30 November 2017*** Management keeps monitoring the development. ASHI becomes one of the potential topics to be addressed by Member States at upcoming PBC informal consultations on financial related matters.	
# 57	In 2016, the level of current assessed contributions receivable decreased by 10 million euros to 93.2 million euros. As at year-end 2016, two payment plans existed whereas 78 Member States were in arrears without a payment plan. If assessed contributions are paid later than the biennium to which they relate, they cannot be used for the originally planned programme of work but will become part of the unutilized balances of appropriations and ultimately surrendered to the Member States in accordance with Financial Regulation 4.2. **EA pointed out that delayed payments of assessed contributions put a substantial additional strain on UNIDO regular budget. Efforts to negotiate payment plans with Member States being in arrears should be strengthened.**	In accordance with the above recommendation, a proposed amendment to Financial Regulation 4.2 has been submitted to Member States in document PBC.33/4. ***Status as of 30 November 2017*** The amendment of the Financial Regulation 4.2 was not approved by the Member States at 2017 PBC, however, further discussions are being made and delayed payments of assessed contributions are one of the potential topics to be addressed by Member States at upcoming PBC informal consultations on financial related matters.	**EA will follow up on the process.**
# 63	In 2016, voluntary contributions receivable increased by 4.8 million euros to a total of 216.8 million euros. While they help to improve the overall financial position of UNIDO, they cause a significant imbalance between the regular budget, funded by assessed contributions, and the voluntarily financed operational budget. In this situation, UNIDO can reduce spending financed from the regular budget by increasing the efficiency of operations and open up additional resources for the regular budget. Therefore, a Special Account of Voluntary Contributions for Core Activities (hereinafter "SAVCCA") was established in 2015. As no material payments to this fund have been made so far, it seems necessary to communicate more clearly that substantial voluntary contributions to this fund could help to avoid serious risks for the effective work of UNIDO. This also applies to the Major Capital Investment Fund (hereinafter "MCIF") that is funded by allocations in the regular budget but is also open to receiving voluntary contributions. **EA encouraged UNIDO and Member States to pursue all possibilities to promote efficiency and a sound financial basis for core**	Management welcomes the recommendation and will make efforts to advocate the concept of the special accounts SAVCCA and MCIF to potential contributors.	**see 2017 EA report C.2.1.3. # 48.**

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	activities. Member States may wish to consider reducing financial imbalances by making voluntary funding available for SAVCCA and MCIF.	***Status as of 30 November 2017*** A possible renouncement of 2017 Unencumbered Balances of appropriations (UBs) for SAVCCA and MCIF has been advocated with Member States during 2017 on various official and unofficial occasions, as well as will be announced in CRP for GC and letters informing MS of the UBs due, issued during Nov 2017.	
# 90	Individual Service Agreements (hereinafter "ISA") constitute a substantial portion of UNIDO human capital. The number and importance of ISA has been increasing steadily over the past years. The Framework for ISA does not define any preconditions for the employment of ISA holders. This makes the assessment difficult whether consultants are employed according to the organization's current needs. This especially applies to core functions of the organization. **EA recommended that UNIDO establish a proper assessment and monitoring system with regard to the use and expenditure of external services**	The recommendation refers to ISA contracts charged to established positions and not to ISA funded from TC programmes and projects. The establishment of a monitoring system and the strengthening of internal controls for employment of budgetary funded consultants would require some improvements in the ERP system. Therefore, the implementation of this recommendation will require and depend on the availability of additional financial resources. ***Status as of 30 November 2017*** In progress. The external services are requested against established posts following financial clearance. ToR are designed and approved by the Director of Department and respective Managing Director. Establishment of assessment and monitoring system is under preparation.	**EA will follow up on the process.**
# 96	The Framework for ISA assigns major responsibility to the respective Project Manager/Allotment Holder. The whole decision-making process is in his or her hands. This might affect the transparency of the decision-making process and cause conflicts of interest with regard to the selection of suitable candidates. In contrast to the leading role of the Project Managers/Allotment Holders in the recruitment and selection process of ISA holders, the role of the Department of Human Resources Management (hereinafter "HRM") is limited to a more formal role based on the workflow. **EA recommended that UNIDO ensure that roles and responsibilities for the assignment of consultants are clearly established in the Framework for ISA and clearly separated between the Project Manager and HRM. The decision of the Project Managers/Allotment Holders in the selection process should be reviewed and approved by a unit which has central competencies in ensuring the transparency and efficiency of HRM.** **Furthermore, UNIDO should provide standardized ranking and assessing sheets for all Project Managers. This would improve**	Management supports the recommendation to provide standardized ranking and assessment sheets for all Project Managers. The ISA Framework will be revised. However, it should be noted that an increase in the responsibilities of the HRM team in the selection process will inevitably lead to the need of additional resources to perform the newly assigned tasks, which in turn will depend on the availability of such additional resources.	**EA will follow up on the process.**

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	transparency and comparability in the selection process.	***Status as of 30 November 2017*** In progress: Improvement to be made into the Framework for ISA is been considered by the EB (Dec 2017) and related changes, including standardized ranking and assessment sheets, will be implemented as soon as decisions are made.	
# 103	The Framework for ISA includes some competition requirements applicable to the recruitment process of consultants. These requirements do not cover consultants having a positive performance record and being registered in the resource pool. The interviews with the Project Managers/Allotment Holders revealed that the majority of candidates was selected from the resource pool. This non-competitive selection process might help to eliminate the bureaucratic process of approving posts. However, it does not permit making full use of direct competition to find the best candidate for a specific task. It also presents a risk of non-transparent and subjective decisions. **UNIDO should ensure objectivity and sufficient competition in the selection and recruitment of consultants. This applies particularly to consultants selected from the resource pool which represent the majority of the selected candidates. EA recommended that UNIDO review the existing competition thresholds and lower them, if necessary.**	Management supports the recommendation in principle and the selection process will be reviewed to address the mentioned risks while at the same time securing efficient delivery of UNIDO programme objectives and the need to hire consultants at a timely manner. Improvements in the ERP system, which would support standardized monitoring, are required and hence the implementation of the recommendation will depend on the availability of resources. ***Status as of 30 November 2017*** In progress: Improvement to be made into the Framework for ISA is been considered by the EB (Dec 2017) and related changes, including standardized ranking and assessment sheets, will be implemented as soon as decisions are made.	**EA will follow up on the process.**
# 109	Chapter 8.2 of the Framework for ISA stipulates that Project Managers/Allotment Holders shall be able to justify their selection decisions if and when requested by internal or external auditors. The review showed that the reasons for the selection or rejection of candidates are poorly recorded and therefore the basis for the justification of decisions is weak. Some of the Project Managers/Allotment Holders keep the email communication in their own folder in order to comply with the Framework for ISA (Chapter 8.2). Others do not record the decision-making process at all. **In EA's opinion, written records of the reasons for selecting or rejecting each candidate should be kept at the short-listing stage and the final selection stage. UNIDO should provide clear guidelines and increase staff awareness to prepare proper documentation of the selection process at the short-listing stage and the final selection stage.**	Management accepts the recommendation.	**EA will follow up on the process.**

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(1)	(2)	(3)	(4)
		Status as of 30 November 2017 In progress: it is part of the implementation under #96.	
# 114	The work and the performance of the ISA holder are to be evaluated and monitored on a regular basis to ensure that the contractual obligations have been fully met. The evaluation should include a review of the quality of the services provided. UNIDO uses a standardized evaluation template with different classifications. A definition of the meaning and content of each classification is lacking and the requirements for the respective classification are not defined. Project managers apparently had differing definitions of the requirements for a specific classification. Therefore, the rankings were not based on comparable benchmarks. **UNIDO should establish a performance evaluation template which requires the Project Managers/Allotment Holders to evaluate the consultant's performance. Where appropriate, performance evaluation should be based on clearly defined measurable deliverables. It should provide more qualified information on the delivered service referring to the main duties mentioned in the relevant ToR.**	Management supports the recommendation and will review the appraisal methodology. The implementation would require adjustments also in the ERP system, which depends on resource availability. ***Status as of 30 November 2017*** In progress: existing final performance evaluation form is under review and will be part of updated ISA Framework.	**EA will follow up on the process.**
# 123	Following EA's recommendation that the recruitment process for BMS be based on a staff capacity plan that matches current vacancies with operational needs and risks, BMS provided a report titled *'Capacity Plan and New Organization Structure of BMS'* (hereinafter "CPNOS report"). The report mainly provided generalized, little specified assessments of the assumedly appropriate staffing levels. Due to the lacking documentation of the underlying information, EA was not in the position to verify the conclusions presented in the CPNOS report. **EA recommended that UNIDO base future BMS-related capacity and recruitment decisions on well-documented systematic assessments and relevant calculations which reflect operational needs, risks and performance of BMS. UNIDO should be fully aware of the importance of comprehensive and transparent analyses of capacity requirements as a basis for a needs-oriented and efficient staff allocation. The corresponding decision-making should be documented.**	The recommendations are noted. ***Status as of 30 November 2017*** All BMS recruitments are based on well documented methodologies and supporting data. Furthermore, the outcomes of the risk assessment will provide additional data to fine-tune the requirements in all areas of BMS' responsibilities.	**EA will follow up on the process.**

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(1)	(2)	(3)	(4)
# 137	UNIDO hired a HR specialist under ISA to support BMS in reviewing organizational structures and processes of BMS, and drafting a staff capacity plan. The relevant ToR stipulated that the HR specialist had to carry out specific responsibilities and deliver certain outputs. However, the ToR did not provide any further specification of the deliverables than given in the description of the main duties. Since the Performance Evaluation Forms did not provide any further comments on the results achieved, EA was not in the position to verify what criteria have been applied to evaluate the ISA holder's performance. **EA recommended that UNIDO pay attention to the proper use of ISA contracts within BMS. UNIDO should also pay particular attention to prepare applicable ToRs that enable the responsible officials to evaluate the ISA holder's performance in a timely manner after completion of the assignment. Furthermore, EA recommended that UNIDO make a meaningful and transparent evaluation a precondition for the decision to release the final payment.**	The recommendations are noted. ***Status as of 30 November 2017*** No new ISA contracts were issued during the reporting period.	**EA will follow up on the process.**
# 151	The SAP Asset Management System (hereinafter "AMS") automatically captures not only all items above 600 euros but also items with a value below 600 euros if they are purchased through the SAP Shopping Cart procedure. UNIDO discloses PPE in the relevant statement of financial position and the related notes 7 and 8. Expenses for equipment below the capitalization thresholds (low value assets, hereinafter "LVA", and low value attractive items, hereinafter "LVAI") are disclosed together with expenses for technical cooperation equipment handed over to the beneficiaries in a pooled figure (note 17.4). Therefore, UNIDO financial statements do not provide clear information about expenses for LVA and LVAI. **EA recommended that all items that do not exceed the relevant threshold in AMS be recorded regardless of whether the item is located at Headquarters, a local office or used for technical cooperation. In the future, all LVA and LVAI should exclusively be recorded in the system.**	Management agreed with our recommendation and proposed specific measures to address these issues. ***Status as of 30 November 2017*** Within limited resource and materiality contains and PRS flexibility, UNIDO is reviewing transactions for expensed equipment outside of the AMS with the aim to align procurement item catalogue to capture PPE, LVA and LVAI accurately. This is an ongoing process, with long-term goal to keep all assets tracked by the AMS.	**The item is closed.**

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(1)	(2)	(3)	(4)
# 157	UNIDO conducts an annual inventory exercise in accordance with FR 109. In EA's opinion, physical verification of inventories is an important part of an organization's internal controls over assets. It aims at verifying the accuracy of inventory records and assigning the proper carrying value to the inventory. Therefore, EA recommended in the previous annual report that the inventory be conducted more carefully and discrepancies be settled. UNIDO agreed with the recommendation. **EA recommended that UNIDO proceed with implementing this project based on a plan with all necessary information.**	Management has taken note of the audit recommendation. ***Status as of 30 November 2017*** Implementation of the RTLS system is currently ongoing.	see 2017 EA report D.5.1 # 209 – 217
# 166	In previous years, EA had reported on the unsatisfactory situation with regard to the fire protection of IT systems in the rooms which are shared by UNIDO and another organization. In the main fibre distribution centre, the network distribution centre of the D building and the floors in the basement cardboard packings, used IT components, furniture and other wooden objects with a high fire load potential were stored making the escape routes critical and not safe. **EA recommended that UNIDO examine the matter of storing material, having regard to the fire safety conditions and establish regulations for the storing of goods in shared rooms. All inflammable and unnecessary material should be permanently removed from the floors to reduce the fire load. Moreover, access to room D-01 should be strictly controlled and restricted.**	The items identified as belonging to UNIDO in D-01 will be removed with the assistance of BMS. Access to this area is strictly controlled. The old furniture belonging to UNIDO has been donated to the Red Cross Vienna and will be collected in April 2017. The new white cabinet components will be moved to C06 or C02 storage. ***Status as of 30 November 2017*** Completed. All items removed.	**The item is closed.**
# 182	In the previous annual reports, EA commented on the insufficient staffing level of the Office of Internal Oversight and Ethics (hereinafter "IOE") and recommended that UNIDO provide the necessary resources for IOE as stipulated in the Charter of IOE. At present, the staffing situation in IOE is slightly improving as new auditors are being recruited. **UNIDO should continue to ensure that IOE is adequately staffed and resourced.**	The recommendation has been noted and will be acted upon to the extent possible, given the current budgetary constraints. ***Status as of 30 November 2017*** The recommendation has once again been noted and it is envisaged that Member States might make funds available for an additional P-post in the 2018-2019 budget. Further additions depend upon the budgetary situation.	See 2017 EA report D.2.4 # 134 –143.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Report by the Director General

1. I am pleased to present the 2017 financial statements, prepared under the International Public Sector Accounting Standards (IPSAS) and in accordance with article X of the financial regulations.

Assessed contributions

2. The financial implementation of the approved programme and budgets is dependent on the actual level of cash resources available during the year, including the timing of payment of assessed contributions. Actual assessed contributions received and the amounts assessed in accordance with General Conference decisions, with comparative figures for the previous biennium, are shown below in millions of euros.

Table 1
Assessed contributions

	2016–17		*2014–15*	
	Millions of euros	*Percentage*	*Millions of euros*	*Percentage*
Assessed contributions receivable	134.9	100.0	143.7	100.0
Received by the end of biennium	122.7	91.0	130.2	90.6
Shortfall in collections	12.2	9.0	13.5	9.4

3. The rate of collection of assessed contributions for the biennium 2016–2017 was 91.0 per cent, which is slightly higher than that for 2014–2015 at 90.6 per cent. The accumulated outstanding assessed contributions at year-end were €19.5 million, excluding an amount of €71.2 million due from former Member States, leading to a decrease from 2016 (€22.0 million). Annex I (e), contained in conference room paper PBC.34/CRP.3, provides details on the status of assessed contributions. Three Member States, Armenia, Costa Rica and Kyrgyzstan are on schedule with their payments under payment plan agreements. The number of Member States without voting rights was 43 in December 2017; in December 2016, it was 45.

Performance based on the budget basis

4. The adoption of IPSAS has changed the basis of preparing the Organization's financial statements to full accrual; however, in the United Nations system, there has been no change to the programme and budget preparation methodology. Consequently, IPSAS Standard 24 (Presentation of budget information in financial statements) requires that a statement of comparison of budget and actual amounts (statement 5) be included in the financial statements, prepared on the budget basis.

5. Further, to provide the readers of the financial statements with information on the budget basis, a separate section has been included. The following paragraphs describe the financial highlights for the biennium 2016–2017.

6. The comparison is based on the programme and budgets for the biennium 2016–2017, as adopted by the General Conference at its sixteenth session (decision GC.16/Dec.15), consisting of regular budget biennial gross expenditure of €138.9 million to be financed from assessed contributions in the amount of €136.4 million and other income of €2.5 million.

7. On a budget basis, the actual regular budget expenditure during the biennium 2016–2017 amounted to €128.2 million (compared with €131.1 million for the biennium 2014–2015), or 92.3 per cent (compared with 89.0 per cent for the biennium 2014–2015) of the approved gross expenditure budget.

8. Actual collection of budgeted other income for the biennium 2016–2017 amounted to €0.5 million from Government contributions to the cost of the field office network and €0.2 million under miscellaneous income, against a budgeted amount of €2.5 million. After taking into account the actual miscellaneous income not estimated at the General Conference of €2.9 million, the total net expenditure of €124.5 million represents 91.3 per cent of the net regular budget appropriations of €136.4 million. The resulting balance of net appropriations as at 31 December 2017 amounted to €11.9 million (see annex I (a) and I (b), PBC.34/CRP.3).

9. In the operational budget for the year 2017, the reimbursement for programme support costs amounted to €19.3 million (for 2016: €16.9 million). Expenditure was recorded in the amount of €16.2 million (for 2016: €15.3 million), resulting in an excess of income over expenditure in the amount of €3.1 million. Consequently, the closing balance of the special account for programme support costs, i.e. the level of the operating reserve, on

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modified cash basis, was €18.8 million, compared with an opening balance of €15.7 million, including statutory operating reserve of €3.0 million.

10. Technical cooperation delivery for the year 2017, as measured under IPSAS, amounted to €182.9 million in expenditure compared to €157.4 million in 2016. More information on UNIDO's technical cooperation services is available in the *Annual Report of UNIDO 2017* (PBC.34/2).

11. The Organization shows a healthy financial situation, as evidenced by the steady inflow of voluntary contributions of €214.1 million in 2017 (2016: €217.9 million). This, in combination with increased allotments for future technical cooperation services, high utilization of regular budget appropriations and a decent collection rate with regard to assessed contributions, argues well for the Organization's financial stability and its future programmes.

Governance structure

12. As prescribed in its Constitution, UNIDO has three policymaking organs: the General Conference; the Industrial Development Board; and the Programme and Budget Committee. The Member States of UNIDO meet once every two years at the General Conference, the highest policymaking organ of the Organization. The Conference determines the guiding principles and policies and approves the budget and work programme of UNIDO. Members of the Board and the Committee meet once every year to discharge their functions as described by the Constitution, including the review of the implementation of the approved programme of work and of the corresponding regular budget and operational budget, as well as of other decisions of the Conference. As the chief administrative officer of the Organization, I have overall responsibility for directing, and authority to direct, the work of the Organization.

Oversight framework

13. With the establishment of the Independent Audit Advisory Committee (AAC) in 2017, the governance of the oversight functions in UNIDO has been strengthened. In addition to complying with international best practices, the AAC enhances transparency in financial and oversight reporting to the policymaking organs of UNIDO.

14. During 2017, the Ethics Office focused on core functions of the UNIDO Code of Ethical Conduct, i.e. the confidential advisory role for staff on ethics issues and the administration of UNIDO's Policy for Financial Disclosure and Declarations of Interests and the policy for protection against retaliation for reporting misconduct or cooperating with audits or investigations.

Conclusion

15. The inclusive and sustainable industrial development (ISID) is central to global development and is playing an important role in achieving the 2030 Agenda for Sustainable Development. This is reflected most prominently in the Sustainable Development Goal 9 on building resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation, but also in the targets underpinning the other 16 SDGs. UNIDO recognizes that partnerships are essential for achieving ISID and meeting the ambitious goals of the 2030 Agenda. The UNIDO medium-term programme framework (MTPF) 2018–2021 provides strategic guidance for the programmatic activities of UNIDO over the next four years to realize its mandate of supporting countries in achieving ISID and reflects UNIDO's mandate by placing the SDGs as the overall global development objective of the Organization. In this spirit, I wish to take this opportunity to express my appreciation to Member States and to the donors for their overall support, and to all UNIDO personnel for their contribution to the work of the Organization.

[*Signed*]

LI Yong
Director General

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Responsibility for financial statements and certification

The Director General of the United Nations Industrial Development Organization (UNIDO) is responsible for the preparation and integrity of the financial statements, and the external auditor's responsibility is to express an opinion on the statements.

The financial statements have been prepared in accordance with the International Public Sector Accounting Standards and article X of the Financial Regulations of UNIDO and have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and management's best estimates.

The Organization maintains systems of internal accounting controls, policies and procedures to manage risks, ensure the reliability of financial information and the safeguarding of assets, and to identify possible irregularities.

The internal control systems and financial records are subject to reviews by the Office of Internal Oversight and Ethics and the External Auditor during their activities. Management objectively reviews the recommendations made by them for further improving the internal control framework of the Organization.

All material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements and accompanying notes. The statements disclose with reasonable accuracy the financial position of the Organization and of funds held in trust by it, the results of operations and the changes in financial position.

[signed]

LI Yong
Director General

[signed]

George Perera
Director, Department of Finance

Vienna, 15 March 2018

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Statement 1: Statement of financial position as at 31 December 2017

(*Thousands of euros*)

	Note	31 December 2017	31 December 2016
		€ '000	*€ '000*
ASSETS			
Current assets			
Cash and cash equivalents	*2*	447,425	507,211
Accounts receivable (non-exchange transactions)	*3*	181,208	158,646
Receivables from exchange transactions	*3*	1,431	2,153
Inventory	*4*	842	942
Other current assets	*5*	23,185	23,310
Total current assets		**654,091**	**692,262**
Non-current assets			
Accounts receivable (non-exchange transactions)	*3*	100,878	70,602
Property, plant and equipment	*7*	60,628	61,850
Intangible assets	*8*	855	1,476
Other non-current assets	*9*	4,875	4,147
Total non-current assets		**167,236**	**138,075**
TOTAL ASSETS		**821,327**	**830,337**
LIABILITIES			
Current liabilities			
Accounts payable (exchange transactions)	*10*	898	2,555
Employee benefits	*11*	3,056	2,904
Transfers payable (non-exchange transactions)	*10*	38,170	21,757
Advance receipts	*12*	61,776	74,394
Other current and financial liabilities	*13*	22,977	18,864
Total current liabilities		**126,877**	**120,474**
Non-current liabilities			
Employee benefits	*11*	238,495	258,160
Other non-current liabilities	*13*	35,088	37,150
Total non-current liabilities		**273,583**	**295,310**
TOTAL LIABILITIES		**400,460**	**415,784**
NET ASSETS/EQUITY			
Accumulated surpluses/(deficits) and fund balances	*14*	404,937	399,239
Reserves	*15*	15,930	15,314
TOTAL NET ASSETS/EQUITY		**420,867**	**414,553**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**821,327**	**830,337**

Statement 2: Statement of financial performance for year ended 31 December 2017

(*Thousands of euros*)

	Note	31 December 2017	31 December 2016
		€ '000	*€ '000*
INCOME/REVENUE			
Assessed contributions	*16*	66,733	68,234
Voluntary contributions	*16*	214,104	217,877
Investment revenue	*16*	317	551
Revenue producing activities	*16*	179	382
Other income	*16*	2,254	4,225
TOTAL REVENUE		**283,587**	**291,269**
EXPENDITURE			
Salaries and employee benefits	*17*	126,169	121,040
Operational costs	*17*	30,376	25,574
Contractual services	*17*	74,033	62,947
TC equipment expensed	*17*	10,091	5,817
Depreciation and amortization	*17*	7,973	8,206
Other expenses	*17*	1,771	1,566
TOTAL EXPENDITURE		**250,413**	**225,150**
Operating Surplus		**33,174**	**66,119**
Currency translation (gains)/losses	*17*	38,466	(4,702)
SURPLUS/(DEFICIT) FOR THE FINANCIAL PERIOD		**(5,292)**	**70,821**

Statement 3: Statement of changes in net assets for year ended 31 December 2017

(*Thousands of euros*)

	Note	Accumulated surplus/ (deficit)	Reserves	Total net assets/ equity
			€ '000	
Net assets/equity at the beginning of the year		**399,239**	**15,314**	**414,553**
Movements during the year				
Actuarial valuation gains/(losses) on employee benefit liabilities	11,14	27,606		27,606
Transfer (to)/from provision for delayed contribution	14	751		751
Transfer to/(from) reserves	15		616	616
Other movements recognized directly in net assets/equity	14	146		146
Net movements recognized directly in net assets/equity	14,15	**28,503**	**616**	**29,119**
Credits to Member States	14,15	(17,513)		(17,513)
Net surplus/(deficit) for the year		(5,292)		(5,292)
Total movement during the year		**5,698**	**616**	**6,314**
Net assets/equity at the end of the year		**404,937**	**15,930**	**420,867**

Statement 4: Cash flow statement for year ended 31 December 2017

(*Thousands of euros*)

	Note	31 December 2017	31 December 2016
		€ '000	*€ '000*
Cash flows from operating activities			
Surplus/(deficit) for the period		**(5,292)**	**70,821**
Foreign-exchange (gains)/losses on cash and cash equivalents		37,409	(10,752)
Depreciation and amortization	7,8	7,973	8,206
Increase/(decrease) in provision for contributions	3	751	9,580
Valuation gains/(losses) on employee benefit liabilities	11	27,606	(27,684)
(Increase)/decrease in inventories	4	100	138
(Increase)/decrease in receivables	3	(52,116)	6,342
(Increase)/decrease in other assets	5	(603)	2,366
Increase/(decrease) in advance receipts	12	(12,618)	(12,309)
Increase/(decrease) in accounts payable	10	14,756	(18,630)
Increase/(decrease) in employee benefits	11	(19,513)	40,519
Increase/(decrease) in other liabilities and provisions	13	2,051	(4,447)
(Gains)/losses on sale of property, plant and equipment	7	6,237	6,932
Investment/Interest income	6,16	(317)	(551)
Movements in reserves and provisions	14,15	616	(1,640)
Other movements		146	(811)
Net cash flows from operating activities		**7,186**	**68,080**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(11,851)	(11,775)
Purchase of intangible assets	8	(516)	(117)
Proceeds from sale of PPE	7	-	6
Cash flow from investments interest	16	317	551
Net cash flows from investing activities		**(12,050)**	**(11,335)**
Cash flows from financing activities			
Credits to Member States	14	(17,513)	-
Net cash flows from financing activities		**(17,513)**	-
Net increase/(decrease) in cash and cash equivalents		**(22,377)**	**56,745**
Cash and cash equivalents at beginning of the financial period		507,211	439,714
Foreign-exchange gains/(losses) on cash and cash equivalents		(37,409)	10,752
Cash and cash equivalents at the end of the financial period	2	**447,425**	**507,211**

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Statement 5: Statement of comparison of budget and actual amounts for year ended 31 December 2017

(*Thousands of euros*)

Regular Budget	Original budget	Final budget	Actuals on comparable basis	Balance of appropriations
		€ '000		
Cost component				
Staff costs	46,806	49,569	44,835	4,734
Official travel	934	1,375	684	691
Operating costs	14,784	17,389	14,071	3,317
Information and communication technology	3,257	4,559	2,708	1,851
Regular programme of technical cooperation, and special resources for Africa	4,709	4,635	4,465	170
Total	**70,490**	**77,527**	**66,764**	**10,763**

Operational Budget	Original budget	Final budget	Actuals on comparable basis	Balance of appropriations
		€ '000		
Cost component				
Staff costs	15,728	16,735	15,287	1,448
Official travel	1,013	1,255	914	341
Operating costs	458	812	165	647
Total	**17,198**	**18,801**	**16,365**	**2,436**

Total	*Note*	Original budget	Final budget	Actuals on comparable basis	Balance of appropriations
			€ '000		
Cost component					
Staff costs		62,534	66,304	60,122	6,182
Official travel		1,947	2,630	1,598	1,032
Operating costs		15,241	18,200	14,236	3,964
Information and communication technology		3,257	4,559	2,708	1,851
Regular programme of technical cooperation, and Special Resources for Africa		4,709	4,635	4,465	170
Total	18	**87,688**	**96,328**	**83,128**	**13,200**

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

Note 1. Accounting policies

Reporting entity

1.1 The United Nations Industrial Development Organization (UNIDO) was established in 1966 by General Assembly resolution 2152 (XXI) and became a specialized agency of the United Nations in 1985 with the entry into force of its Constitution. The primary objective of the Organization is the promotion of sustainable industrial development in developing countries and countries with economies in transition. The Organization currently has 167 Member States.

1.2 The Organization has three governing bodies: the General Conference, the Industrial Development Board and the Programme and Budget Committee. All three are anchored in the Constitution of UNIDO, which was adopted in 1979.

1.3 The General Conference, which comprises all Member States of UNIDO, determines the guiding principles and policies of the Organization, and approves its budget and work programme. Every four years, the General Conference appoints the Director General. The General Conference also elects the members of the Industrial Development Board and of the Programme and Budget Committee.

1.4 The Industrial Development Board, which comprises 53 members, reviews the implementation of the work programme and the regular and operational budgets, and makes recommendations on policy matters, including the appointment of the Director General. The Board meets once a year (decision IDB.39/Dec.7(f)).

1.5 The Programme and Budget Committee, consisting of 27 members, is a subsidiary organ of the Board and meets once a year. The Committee assists the Board in the preparation and examination of the work programme, the budget and other financial matters.

1.6 The Organization channels its technical cooperation activities into three areas: creating shared prosperity, advancing economic competitiveness and safeguarding the environment. In addition, it engages in a number of cross-cutting activities, especially in promoting South-South cooperation for industrial development, strategic partnerships, special programmes for the least developed countries and strategic industrial research and statistical services.

1.7 The sections in the notes on segment reporting provide further details on how these core activities are managed and financed.

Basis of preparation

1.8 The financial statements of UNIDO are maintained in accordance with article X of the Financial Regulations of UNIDO, as adopted by the General Conference and in conformity with the International Public Sector Accounting Standards (IPSAS). Accordingly, the financial statements are prepared on the accrual basis of accounting. If IPSAS is silent concerning any specific matter, the appropriate International Financial Reporting Standards and International Accounting Standards are applied.

1.9 The senior management of UNIDO has made an assessment of the entity's ability to continue as a going concern, and it notes no material uncertainties related to events or conditions which may cast significant doubt. The going-concern concept in accounting is an assumption that a business will continue to exist for the foreseeable future. Therefore, these financial statements are prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the reporting period.

1.10 These consolidated financial statements include the financial statements of UNIDO and the joint operations of Buildings Management Services, Vienna International Centre and Major Repair and Replacement Fund and other common services.

Measurement basis

1.11 The financial statements are prepared using the historic cost convention, except for certain investments and assets which are carried at fair value according to the requirements of the applicable IPSAS standards.

Reporting period

1.12 The financial period for the preparation of annual financial statements in accordance with IPSAS is the calendar year starting on 1 January 2017 and ending on 31 December 2017.

Currency and basis for conversion

1.13 The functional and presentation currency of UNIDO is the euro. All values in the financial statements are expressed in euro and rounded to the nearest thousand euros, unless stated otherwise.

Translation and conversion of currencies

1.14 Transactions, including those involving non-monetary items, in currencies other than the euro are converted to euros using the United Nations operational rates of exchange applicable on the deemed date of the transaction.

1.15 Monetary assets and liabilities denominated in other currencies are converted into euros at the United Nations operational rate of exchange in effect at the end of the reporting period.

1.16 Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the conversion of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of financial performance.

Use of estimates

1.17 The financial statements necessarily include amounts based on estimates and assumptions made by management using best knowledge of current events and actions. Estimates include, but are not limited to, the following: fair value of donated goods, defined benefit pension and other post-employment benefit obligations; amounts for litigation, financial risk on accounts receivable, accrued charges, contingent assets and liabilities; and degree of impairment on inventories, property, plant and equipment, and intangibles. Actual results could differ from those estimates. Material changes in estimates are reflected in the period in which they become known.

Revenue and Expenses

Exchange revenue

1.18 Revenue from the sale of goods, such as sales of publications and the Computer Model for Feasibility Analysis and Reporting, is recognized when the significant risks and rewards of ownership of the goods are transferred to the purchaser.

1.19 Revenue from the provision of services is recognized in the financial period in which the service is rendered according to the estimated stage of completion of that service, provided that the outcome can be estimated reliably.

Interest revenue

1.20 Interest income is recognized on a time-proportion basis as it accrues, taking into account the effective yield on the asset.

Non-exchange revenue

Assessed contributions

1.21 Revenue from assessed contributions from Member States to the regular budget is recognized at the beginning of the year to which the assessment relates. The revenue amount is determined based on programmes and budgets and billed to Member States according to the scale of assessment approved by the General Conference.

Voluntary contributions

1.22 Revenue from voluntary contributions that include restrictions on their use is recognized upon the signing of a binding agreement between UNIDO and the donor providing the contribution. Revenue from voluntary contributions that include conditions on their use, including an obligation to return the funds to the contributing entity if such conditions are not met, is recognized as the conditions are satisfied. Until such conditions are met, the present obligation is recognized as a liability.

1.23 Voluntary contributions and other revenue which are not supported by binding agreements are recognized as revenue when received.

Goods in kind

1.24 Goods-in-kind contributions are recognized at their fair value, and goods and corresponding revenue are recognized immediately if no conditions are attached. If conditions are attached, a liability is recognized until such

conditions are met and the present obligation is satisfied. Revenue is recognized at fair value, measured as at the date the donated assets are acquired.

Services in kind

1.25 Services-in-kind contributions are not recognized in the financial statements as revenue. The nature and type of service are disclosed in the notes to the financial statements.

Expenses

1.26 Expenses arising from the purchase of goods and services are recognized at the point that the supplier has performed its contractual obligations, which is when the goods and services are received and accepted by UNIDO. This process may occur in stages for some service contracts. Also, all other expenses resulting from the consumption of assets or the incurrence of liabilities that result in decreases in net assets/equity during the reporting period are recognized.

Assets

Cash and cash equivalents

1.27 Cash and cash equivalents are held at nominal value and include cash on hand and short-term highly liquid time deposits held with financial institutions.

Receivables and advances

1.28 Receivables and advances are recognized initially at nominal value. Allowances for estimated irrecoverable amounts are recognized for receivables and advances when there is objective evidence that the asset is impaired, in which case the impairment losses are recognized in the statement of financial performance.

Financial instruments

1.29 The Organization uses only non-derivative financial instruments as part of its normal operations. These financial instruments consist mainly of bank accounts, time deposits, call accounts, accounts receivable and accounts payable.

1.30 All financial instruments are recognized in the statement of financial position at their fair value. The historical cost-carrying amount of receivables and payables, subject to normal trade credit terms, approximates the fair value of the transaction.

Financial risks

1.31 The Organization has instituted prudent risk management policies and procedures in accordance with its financial regulations and rules. It may make both short- and long-term investments of moneys not needed for immediate requirements. All long-term investments must receive the recommendation of an investment committee before they are made. In the normal course of business, UNIDO is exposed to a variety of financial risks, such as market risk (foreign currency exchange and interest rate) and counter-party risk. The Organization does not use any hedging instruments to hedge risk exposures.

- Currency risk. The Organization receives contributions from Member States and donors partly in currencies other than the currency of the expenditure and is therefore exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates.
- Interest rate risk. The Organization deposits its funds only in short-term fixed interest accounts and therefore has no significant interest rate risk exposure.
- Credit risk. The Organization has no significant exposure to credit risk because its contributing Member States and donors are generally of high credit standing.
- Counter-party risk. The Organization has its cash deposited with various banks and is therefore exposed to the risk that a bank might default in its obligation towards the Organization. However, UNIDO has policies that limit the amount of exposure to any one financial institution.

Inventories

1.32 Inventories are stated at cost, except when they are acquired through a non-exchange transaction, in which case their cost is measured at their fair value as at the date of acquisition. Costs are assigned by using the "first

in, first out" (FIFO) basis for interchangeable items of inventory, and by using specific identification for non-interchangeable items of inventory. A provision for impairment is recorded in the statement of financial performance in the year in which the inventory is determined to be impaired.

1.33 As the value of office supplies, publications and reference tools used are not material, they are expensed upon purchase in the statement of financial performance.

Property, plant and equipment

1.34 Initial recognition of property, plant and equipment is stated at cost as at the date of acquisition for each asset class. The subsequent carrying amount of property, plant and equipment is at cost less accumulated depreciation and any recognized impairment losses. A capitalization threshold of €600 has been set for this category.

1.35 Donated assets are valued at fair value as at the date of acquisition. Heritage assets are not recognized.

1.36 Impairment reviews are undertaken for property, plant and equipment on a yearly basis.

1.37 The straight-line depreciation method is applied over the asset's estimated useful life to determine the annual depreciation charge, which is recognized in the statement of financial performance. The estimated useful life for each class of property, plant and equipment is as follows:

Class	*Estimated useful life (years)*
Vehicles	3–10
Communications and information technology equipment	3–7
Furniture and fixtures	5–12
Machinery	4–15
Buildings	15–100
Land	No depreciation
Leasehold improvements	The shorter of the lease term or useful life

Intangible assets

1.38 Intangible assets are stated at cost less accumulated amortization and any impairment loss. Intangible assets held by UNIDO comprise mainly software.

1.39 If an intangible asset is acquired at no cost (e.g. as a gift or donation) or for nominal cost, the fair value of the asset as at the date of acquisition is used.

1.40 The following criteria must also be met for an item to be recognized as an intangible asset: (a) it has an estimated useful life of more than one year; and (b) the cost of the asset exceeds €1,700, except for internally developed software, for which a minimum development cost is set at €25,000, excluding research and maintenance costs, which are expensed when incurred.

1.41 Amortization is provided over the estimated useful life using the straight-line method. The estimated useful life of intangible asset classes is as follows:

Class	*Estimated useful life (years)*
Software acquired externally	6
Software developed internally	6
Copyrights	3

Leases

1.42 Lease agreements entered into in field offices are classified as operating leases. The lease payments made are included in the statement of financial performance as an expense, on a straight-line basis over the period of the lease.

Interests in joint arrangements

1.43 A joint arrangement is a binding arrangement whereby UNIDO and one or more parties undertake an economic activity that is subject to joint control. For joint operations, in which UNIDO is the operator, UNIDO recognizes in its financial statements the assets it controls and the liabilities and expenses it incurs. If another

organization is the operator, the expense and liability recognition of UNIDO is limited to the agreed billing arrangements.

1.44 These general purpose financial statements include the applicable share of the joint arrangements established by a memorandum of understanding concerning the allocation of the common services at the Vienna International Centre entered into by the Vienna-based organizations in 1977. The common services include catering, buildings management, the Commissary and other services. The Organization is party to a joint arrangement with the United Nations, the International Atomic Energy Agency and the Preparatory Commission for the Comprehensive Nuclear Test-Ban-Treaty Organization on the premises of the Vienna International Centre, as well as common service activities.

Liabilities

Accounts payable and other financial liabilities

1.45 Accounts payable and other financial liabilities are recognized initially at nominal value, which best estimates the amount required to settle the obligation as at the reporting date.

Employee benefit liabilities

Short-term employee benefits

1.46 Short-term employee benefits comprise wages, salaries, allowances, paid sick leave and maternity leave. Short-term employee benefits are due to be settled within 12 months after the end of the period in which the employees render the related service and are measured at their nominal value based on accrued entitlements at current rates of pay.

Post-employment benefits

1.47 Post-employment benefits are employee benefits (other than termination benefits) that are payable after completion of employment.

1.48 Post-employment benefits at UNIDO comprise defined benefit plans, namely the pension plan (United Nations Joint Staff Pension Fund), after-service health insurance, repatriation grants and end-of-service allowances, along with costs related to separation entitlements for travel and shipment of household effects.

1.49 Post-employment benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the obligation is determined by discounting the estimated future payment required to settle the obligation resulting from employee service rendered in the current and prior periods, using the interest rates of high-quality corporate bonds for the corresponding maturity years.

1.50 Actuarial gains and losses are recognized using the reserve method in the period in which they occur and are shown as a separate item in the statement of changes in net assets/equity.

Other long-term employee benefits

1.51 Other long-term employee benefits that are largely payable beyond 12 months, such as commutation of annual leave, are calculated on the same actuarial basis as post-employment benefits and actuarial gains and losses are recognized immediately.

United Nations Joint Staff Pension Fund

1.52 UNIDO is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by article 3 (b) of the regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

1.53 The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. Both UNIDO and the Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan that pertain to UNIDO with sufficient reliability for accounting purposes. Hence, UNIDO has treated this plan as if it

were a defined-contribution plan in line with the requirements of IPSAS standard 25. The contributions of UNIDO to the plan during the financial period are recognized as expenses in the statement of financial performance.

Provisions and contingent liabilities

1.54 Provisions are recognized for contingent liabilities when: (a) UNIDO has a present legal or constructive obligation as a result of past events; (b) it is more likely than not that an outflow of resources will be required to settle that obligation; and (c) the amount can be reliably estimated. The amount of the provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date. The estimate is discounted when the effect of the time value of money is material.

1.55 Contingent liabilities for which the possible obligation is uncertain, or for which it is yet to be confirmed whether UNIDO has a present obligation that could lead to an outflow of resources, or obligations that do not meet the recognition criteria of IPSAS standard 19, are disclosed.

Fund accounting and segment reporting

1.56 The financial statements are prepared on a "fund accounting" basis. Each fund is maintained as a distinct financial and accounting entity, with a separate self-balancing, double-entry group of accounts. Fund balances represent the accumulated residual value of revenue and expenses.

1.57 Sources of funds for UNIDO reflect distinguishable types of services that UNIDO provides to achieve its overall objectives. The General Conference or the Director General may establish separate funds for general or special purposes. Accordingly, segment reporting information is presented on the basis of the source of funds and categorizes all of its activities into three distinct service segments:

(a) *Regular budget activities*. Providing core services, such as the Organization's governance, policy development, strategic direction, research, administration and support services (e.g., financial management and human resource management), as well as services to support the decision-making of Member States and provide core support to the achievement of the primary objective of UNIDO according to its Constitution, i.e., the promotion and acceleration of industrial development in developing countries;

(b) *Technical cooperation activities*. Implementing projects and delivering services directly to beneficiaries. Those services bring direct benefit to beneficiaries in a wide range of areas, from agriculture to environment to trade, and include technology transfer, capacity-building and improvement of production processes. These services are distinguishably different from those provided under regular budget financed activities, as specified above;

(c) *Other activities and special services*. Carrying out "peripheral activities" in support of the services of (a) and (b) above. This last group of other activities and special services refers to services such as sales publications, buildings management and the Computer Model for Feasibility Analysis and Reporting, which are supplementary to the main activities of the Organization, but are in line with and relevant to its general objectives.

Budget comparison

1.58 Both regular and operational biennial programmes and budgets are prepared on a modified cash basis rather than on a full accrual basis. Owing to the different bases of preparing budgets and financial statements, statement 5 (Comparison of budget and actual amounts as required under IPSAS standard 24) is presented on the same basis of accounting, classification and period as the approved budget.

1.59 The comparison statement includes the original and final budget amounts, the actual amounts on the same basis as the corresponding budgetary amounts and an explanation of material differences between the budget and actual amounts.

1.60 Note 18 below provides a reconciliation of actual amounts presented on the same basis as the budget with the actual amounts of net cash flows from operating activities, investing activities and financing activities presented in the financial statements, identifying separately any basis, timing and entity differences.

Related party disclosures

1.61 Related parties that have the ability to control or exercise significant influence over UNIDO in making financial and operating decisions, as well as transactions with such parties unless they occur within a normal relationship and on arm's length terms and conditions, or if such transactions are consistent with normal operating

relationships between such entities, will be disclosed. In addition, UNIDO will disclose specific transactions with key management personnel and family members.

1.62 The key management personnel of UNIDO are the Director General, the Deputy to the Director General and the Managing Directors, who have the authority and responsibility for planning, directing and controlling the activities of UNIDO and influencing its strategic direction. Remuneration of key management personnel will be considered a related party transaction.

Note 2. Cash and cash equivalents

	31 December 2017	*31 December 2016*
	(thousands of euros)	
Cash and cash equivalents		
Cash in the bank and on hand	182,569	116,403
Term deposits with original maturity up to 12 months	262,215	387,650
Cash and cash equivalents held in field offices	2,641	3,158
Total cash and cash equivalents	**447,425**	**507,211**

2.1 Cash and cash equivalents contain restrictions on their availability for use, depending upon the fund they relate to. Further information on cash and cash equivalents, listed by segment, is provided in note 19A.

2.2 Cash and cash equivalents include cash and term deposits equivalent to €243,922 (2016: €254,454) held in currencies other than the euro.

2.3 Some cash is held in currencies which are either legally restricted or not readily convertible to euros and is used exclusively for local expenses in the respective countries. At period end, the euro equivalent of these currencies was €1,984 (2016: €1,725) based on the respective United Nations operational rates of exchange then in effect.

2.4 Interest-bearing bank accounts and term deposits yielded interest at an annual average rate of 0.17 per cent and 1.13 per cent for holdings in euros and United States dollars respectively (2016: 0.05 per cent and 0.68 per cent).

2.5 Cash in field offices is held in imprest bank accounts for the purpose of meeting financial needs in field locations.

Note 3. Accounts receivable

	31 December 2017	*31 December 2016*
	(thousands of euros)	
Current		
Receivable from non-exchange transactions		
Due from Member States: assessed contribution	89,980	93,176
Due from Member States: other	9	44
Voluntary contributions receivable	171,055	146,153
VAT and other taxes recoverable	2,889	3,284
Total accounts receivable before allowance	**263,933**	**242,657**
Allowance for doubtful accounts	(82,725)	(84,011)
Net accounts receivable from non-exchange transactions	**181,208**	**158,646**

	31 December 2017	*31 December 2016*
	(thousands of euros)	
Receivable from exchange transactions		
Receivables from United Nations organizations	716	1,544
Receivables: other	1,295	1,189
Allowance for doubtful accounts	(580)	(580)
Net accounts receivable from exchange transactions	**1,431**	**2,153**
Non-current		
Receivable from non-exchange transactions		
Due from Member States: assessed contribution	637	65
Voluntary contributions receivable	100,809	70,567
Allowance for doubtful accounts: assessed contribution	(568)	(30)
Total receivable from non-exchange transactions	**100,878**	**70,602**

3.1 Accounts receivable are shown net of adjustments related to doubtful accounts. Allowance for uncollected assessed contributions is based on historical experience and is estimated at the following percentages of outstanding contributions receivable (no allowance has been made for voluntary contributions receivable):

Length of time contributions were outstanding	*2017*	*2016*
	(percentage)	
More than 6 years	100	100
Between 4 and 6 years	80	80
Between 2 and 4 years	60	60
Between 1 and 2 years	30	30

3.2 Changes in allowance for uncollected assessed contributions were as follows:

	31 December 2017	*31 December 2016*
	(thousands of euros)	
Allowance for bad and doubtful accounts at beginning of the year	**81,918**	**91,498**
Change during the year	(752)	(9,580)
Allowance for bad and doubtful accounts at the end of the year	**81,166**	**81,918**

3.3 Total allowances for bad and doubtful accounts of €83,873 (2016: €84,622) consist of €81,166 (2016: €81,918) against assessed contributions receivable and €2,707 against other receivables (2016: €2,704).

3.4 Non-current contribution receivables are for confirmed contributions from donors and Member States due after more than one year from the reporting date in accordance with agreed payment plans and project phasing.

3.5 Annex I (e) provides details of the status of assessed contributions, and the following table illustrates ageing of contributions receivable:

	31 December 2017		31 December 2016	
	(thousands of euros)	(percentage)	(thousands of euros)	(percentage)
Age				
1–2 years	12,137	13.4	15,342	16.5
3–4 years	2,180	2.4	1,312	1.4
5–6 years	415	0.5	296	0.3
7 years and more	75,885	83.7	76,292	81.8
Total contributions receivable before allowance	**90,617**	**100.0**	**93,242**	**100.0**

Note 4. Inventories

	31 December 2017	31 December 2016
	(thousands of euros)	
Opening inventory	942	1,080
Purchased during the year	343	229
Total inventory available	**1,285**	**1,309**
Less: consumption	(442)	(367)
Less: write-up/(down)	(1)	-
Closing inventory	**842**	**942**

4.1 Inventories consist of supplies for maintenance of premises, sanitation and cleaning materials. Physical quantities, derived from the UNIDO Inventory Management System, are validated by physical stock counts and are valued on a "first in, first out" (FIFO) basis.

4.2 Inventories are valued net of any impairments or obsolescence. In 2017, UNIDO wrote down inventories by an amount of €1 (2016: €0) on account of obsolescence and other losses.

Note 5. Other current assets

	31 December 2017	31 December 2016
	(thousands of euros)	
Advances to vendors	17,602	19,100
Advances to staff	2,814	2,992
Accrued interest	395	313
E-IOV items	2,265	898
Other current assets	109	7
Total other assets	**23,185**	**23,310**

5.1 Advances to vendors are payments made in advance of goods and service delivery on submission of shipping documents and initial payments released on signing of the contract documents.

5.2 Advances to staff are for education grants, rental subsidies, travel and other staff entitlements.

5.3 Electronic inter-office voucher (E-IOV) items comprise the balance on the service clearing account for field inter-office vouchers, amounts held in suspense and items rejected due to insufficient information.

Note 6. Interest in joint arrangements and other entities

6.1 The United Nations Vienna-based organizations have an agreement that the costs, in excess of any external income, of common services rendered by each organization, such as catering, Commissary, security and medical services and building management, are shared according to established cost-sharing ratios.

6.2 The ratios vary to reflect key factors such as the number of employees and the total space occupied. Each year, ratios derived from the agreed tabulation for the Vienna-based organizations, once approved, become effective to apportion cost. These cost-sharing arrangements are reviewed from time to time by management. The consolidation of all UNIDO joint arrangements is based on the cost-sharing ratios applicable to the corresponding reporting periods. Cost-sharing ratios for UNIDO were as follows:

2017	13.966 per cent
2016	14.185 per cent

Buildings Management Services

6.3 Buildings Management Services are responsible for the operation and management of the physical plant of the premises of the Vienna International Centre. UNIDO is assigned to be the operating agency of the service with decision-making capacity over financial and operating policies resting with the Committee of Common Services comprising the respective representatives of the Vienna-based organizations. Therefore, Buildings Management Services is considered a joint operation, with joint control shared among all Vienna-based organizations. Buildings Management Services has no legal status of its own. Its assets and liabilities are held in the name of UNIDO.

6.4 The Vienna-based organizations have been making annual contributions to the Buildings Management Services fund according to the approved ratio as described in paragraph 6.2 above, with exceptions of reimbursement for ad hoc projects, which are of a cost-recovery nature. While neither the residual interest of the Vienna-based organizations in Buildings Management Services nor the mode of distribution of such interest upon dissolution of the fund is defined in any document, since the operation is carried out on the principle of a "no gain, no loss" basis, balances of the contributions of the Vienna-based organizations net of expenses are recognized as deferral, pending release for services to be delivered in the future (see note 12)

Buildings Management Services: summary financial information

	31 December 2017	*31 December 2016*
	(thousands of euros)	
Income	22,315	21,556
Expenses	22,440	22,955
Assets, current	43,492	42,473
Assets, non-current	1,300	1,499
Liabilities, current	18,938	17,497
Liabilities, non-current	29,151	29,174
Net assets/equity	(3,297)	(2,699)

Major Repair and Replacement Fund

6.5 A common fund for the purpose of financing the cost of major repairs and replacement of buildings, facilities and technical installations of the Vienna International Centre was established by the Republic of Austria and the Vienna-based organizations under the responsibility of the joint Committee, comprising the respective representatives of the Republic of Austria and the Vienna-based organizations. The Major Repair and Replacement Fund is considered a joint operation with joint control shared among the Republic of Austria and the Vienna-based organizations. It has no legal status, and its assets and liabilities are held in the name of the Republic of Austria and UNIDO (UNIDO on behalf of the Vienna-based organizations).

6.6 The Republic of Austria and the Vienna-based organizations are making annual contributions to the Major Repair and Replacement Fund shared equally between the Republic of Austria and the Vienna-based organizations. The contribution of the Vienna-based organizations is shared among the individual organizations according to the approved ratio as described in paragraph 6.2 above. As for Buildings Management Services, the balances of the

contributions of the Vienna-based organizations net of expenses are recognized as deferral, pending release for services to be delivered in the future (see note 12).

Major Repair and Replacement Fund: summary financial information

	31 December 2017	*31 December 2016*
	(thousands of euros)	
Income	3,525	3,527
Expenses	1,533	4,057
Assets, current	11,294	9,083
Liabilities, current	292	73
Net assets/equity	11,002	9,010

Vienna International Centre

6.7 In 1967, the Republic of Austria provided a permanent headquarters building to the Vienna-based organizations for 99 years at a nominal rent of one Austrian schilling a year. The headquarters agreement of each organization states that the building would be made available without furnishings, and it would be used solely as the headquarters seat for the Vienna-based organizations with due regard to the owner's rights under Austrian law. The Vienna-based organizations would meet all operating costs, and bear the costs of maintenance of the building and of any necessary inside and outside repairs. The agreement shall cease to be in force if the headquarters seat of the Vienna-based organizations is removed from the designated area; a decision to move the seat is at the discretion of the individual organization, and there are no onerous conditions attached.

6.8 The Republic of Austria retains the ownership of the area constituting the headquarters seat. However, the Vienna-based organizations acquire the economic benefits and service potential of the use of the leased asset for the major part of its economic life. Therefore, the Vienna International Centre is considered a joint operation with joint control shared among the Vienna-based organizations. The commitment to retain the headquarters seat in the premises is reflected as a performance obligation (see note 13) representing the full value of the gift from the Republic of Austria, deferred until fulfilled, on an annual basis.

6.9 The Vienna International Centre is maintained by UNIDO's Buildings Management Services under the management of the joint Committee on Common Services. Costs of major repairs are financed from the Major Repairs and Replacement Fund.

Vienna International Centre: summary financial information

	31 December 2017	*31 December 2016*
	(thousands of euros)	
Income	15,565	16,146
Expenses	15,565	16,146
Assets, non-current	253,691	266,371
Liabilities, non-current	253,691	266,371
Net assets/equity	-	-

6.10 Costs related to other common services, such as security and medical services, are expensed on a reimbursement basis. The amounts expensed during the year were €1,892 and €236 (2016: €1,647 and €208), respectively.

Other non-consolidated entities

Catering Service

6.11 The Catering Service sells food, beverages and services to staff members of the Vienna-based organizations and other specified groups of individuals, on the premises of the Vienna International Centre. In 2014 a contract was entered into with a new catering operator, for a period of 10 years. The operator controls and manages the catering business on UNIDO's behalf and pays a fixed annual operating fee, regardless of the profit or loss incurred by the operator.

6.12 The benefits from operating the Catering Service flow to the staff of the Vienna-based organizations, delegates and VIC visitors, rather than to the Vienna-based organizations themselves. On dissolution, any residual net equity will be distributed to the staff welfare funds of UNIDO and other Vienna-based organizations.

6.13 The Catering Service has no legal personality of its own. Its assets and liabilities are held in the legal name of UNIDO. Therefore, UNIDO is potentially exposed to any residual liabilities of the Catering Service.

Catering Service: summary financial information

	31 December 2017	*31 December 2016*
	(thousands of euros)	
Revenue	128	127
Net operating expenses	13	-
Assets, current	1,833	1,705
Liabilities, current	13	1
Net assets/equity	1,820	1,704

Commissary

6.14 The Commissary sells tax-free household items for personal consumption to staff members of the Vienna-based organizations and other specified groups of individuals on a cost recovery basis.

6.15 Similarly to the Catering Service, the benefits flow to the entitled individuals, rather than to the Vienna-based organizations themselves. On dissolution, any residual net equity is distributed to the staff welfare funds of International Atomic Energy Agency (IAEA) and the other Vienna-based organizations, based on the proportion of sales to staff members of the respective Vienna-based organizations over the five years preceding dissolution.

6.16 The Commissary has no legal personality of its own; its assets and liabilities are held in the legal name of IAEA. The IAEA is therefore potentially exposed to any residual liabilities of the Commissary.

Note 7. Property, plant and equipment

	Capitalization in progress and low value Assets	*Buildings*	*Furniture and fixtures*	*Information and communications technologies equipment*	*Vehicles*	*Machinery*	*Total*
				(thousands of euros)			
Cost							
At 31 December 2016	345	70,435	2,235	14,638	4,493	26,041	**118,187**
Additions	837	179	895	1,029	721	8,190	**11,851**
Disposals/transfers	(208)	(1,055)	(174)	(828)	(829)	(6,921)	**(10,015)**
At 31 December 2017	**974**	**69,559**	**2,956**	**14,839**	**4,385**	**27,310**	**120,023**
Accumulated depreciation							
At 31 December 2016	166	32,651	1,226	12,148	2,434	7,712	**56,337**
Depreciation charge during the year	802	1,955	205	643	512	2,949	**7,066**
Depreciation charge of joint venture	10	-	6	264	5	33	**318**
Disposals/transfers	(4)	(499)	(66)	(659)	(560)	(2,538)	**(4,326)**
At 31 December 2017	**974**	**34,107**	**1,371**	**12,396**	**2,391**	**8,156**	**59,395**
Net book value							
At 31 December 2016	**179**	**37,784**	**1,009**	**2,490**	**2,059**	**18,329**	**61,850**
At 31 December 2017	**-**	**35,452**	**1,585**	**2,443**	**1,994**	**19,154**	**60,628**

7.1 Property, plant and equipment items are capitalized if their cost is greater than or equal to the threshold limit set at €600. They are depreciated over the asset's estimated useful life using the straight-line method. The threshold level is reviewed periodically.

7.2 Property, plant and equipment items are reviewed annually to determine if there is any impairment in their value. During 2017, review of asset impairments indicated no impairments.

7.3 The gross carrying amount (value at cost) of fully depreciated property, plant and equipment items, excluding buildings, still in use amounts to €5,869 (2016: €5,913) at the period end.

7.4 The useful life of the conference equipment, included under information and communications technologies equipment, originally capitalized at €9,743 in May 2013 was revised from initial 4 years to 9 years, to better reflect expected service life. As a consequence annual depreciation decreased by €894 in 2017 and will continue at €206 during the period 2018–2022.

Note 8. Intangible assets

	Capitalization in progress and low value Assets	*Software acquired externally*	*Internally developed software*	*Total*
		(thousands of euros)		
Costs				
At 31 December 2016	-	1,140	5,368	**6,508**
Additions	174	342	-	**516**
Disposals/transfers	(172)	(202)	-	**(374)**
At 31 December 2017	**2**	**1,280**	**5,368**	**6,650**
Accumulated amortization				
At 31 December 2016	-	638	4,394	**5,032**
Amortization charge during the year	175	123	609	**907**
Disposals/transfers	(173)	29	-	**(144)**
At 31 December 2017	**2**	**791**	**5,002**	**5,795**
Net book value				
At 31 December 2016	**-**	**502**	**974**	**1,476**
At 31 December 2017	**-**	**489**	**366**	**855**

8.1 Intangible assets are capitalized if their cost exceeds the threshold of €1,700 except for internally developed software where the threshold is €25,000, excluding research and maintenance costs. Internally developed software represents development costs of the new enterprise resource planning system.

Note 9. Non-current assets

	31 December 2017	*31 December 2016*
	(thousands of euros)	
Initial advance in Commissary	809	809
Advance to the Major Repair and Replacement fund	768	638
Buildings Management Services deferral	3,297	2,699
Other non-current assets	1	1
Total, non-current assets	**4,875**	**4,147**

9.1 Other non-current assets are due after more than one year in accordance with the terms of the agreements. This includes initial advance in Commissary and an advance to the Major Repair and Replacement fund.

9.2 The Buildings Management Services deferral for negative net assets, due to the unfunded long-term employee benefits, represents a future receivable from Vienna -based organizations, which is to be received on a pay-as-you-go basis.

Note 10. Accounts payable

	31 December 2017	31 December 2016
	(thousands of euros)	
Due to Member States	21,119	5,513
Payables to donors	7,751	7,744
Due to Vienna-based organizations	9,300	8,500
Payables to vendors	898	2,555
Total accounts payable	**39,068**	**24,312**

	31 December 2017	31 December 2016 (restated)
	(thousands of euros)	
Composition:		
Payables from non-exchange transactions	38,170	21,757
Payable from exchange transactions	898	2,555
Total accounts payable	**39,068**	**24,312**

10.1 Balances due to Member States represent the unspent balance of collections and assessed contributions received for prior years, pending distribution to eligible Member States or their instructions on its use.

10.2 Payables to donors represent refunds on unspent contributions for closed projects and interest on donor's funds. The treatment of the interest income earned, net of bank charges and exchange gains and losses, is governed by agreements with the donors. The balance in accounts payable denotes the accumulated interest until instructions regarding its utilization are received from the donor.

10.3 Amounts due to Vienna-based organizations represent the refund of the excess funds over the established ceiling of the Buildings Management Services special account. Due to the nature, it was re-classified as Payables from non-exchange transactions.

Note 11. Employee benefits

	31 December 2017			31 December 2016
	Actuarial valuation	UNIDO valuation	Total	
	(thousands of euros)			
Short-term employee benefits		3,056	3,056	2,904
Post-employment benefits	232,708		232,708	251,885
Other long-term employee benefits	5,787		5,787	6,275
Total employee benefit liabilities	**238,495**	**3,056**	**241,551**	**261,064**

	31 December 2017	31 December 2016
	(thousands of euros)	
Composition:		
Current	3,056	2,904
Non-current	238,495	258,160
Total employee benefit liabilities	**241,551**	**261,064**

Valuation of employee benefit liabilities

11.1 Employee benefit liabilities are determined by professional actuaries or calculated by UNIDO based on personnel data and past payment experience. At 31 December 2017, total employee benefit liabilities amounted to €241,551 (2016: €261,064), of which €238,495 (2016: €258,160) was calculated by the actuaries and €3,056 (2016: €2,904) was calculated by UNIDO.

Short-term employee benefits

11.2 Short-term employee benefits relate to salaries, home leave travel and education grants.

Post-employment benefits

11.3 Post-employment benefits are defined benefit plans consisting of the after-service health insurance, repatriation grants and end-of-service allowances, along with costs related to separation entitlements for travel and shipment of household effects.

11.4 After-service health insurance is a plan that allows eligible retirees and their eligible family members to participate in the full medical insurance plan, supplementary medical plans or the Austrian Gebietskrankenkasse (GKK) medical insurance plan.

11.5 End-of-service allowance is a benefit payable to UNIDO General Service staff at the Vienna duty station upon separation from service, and is based on length of service and final salary.

11.6 The repatriation grant is an entitlement payable mainly to Professional staff on separation, together with related costs in travel and shipment of household effects.

Other long-term employee benefits

11.7 Other long-term employee benefits consist of accrued annual leave payable when staff separate from service.

Actuarial valuations of post-employment and other long-term employee benefits

11.8 The liabilities arising from post-employment benefits and other long-term employee benefits are determined by independent actuaries, with valuation conducted as at 31 December 2017. These employee benefits are established in accordance with UNIDO Staff Regulations and Rules for staff members in the Professional and General Service categories.

Actuarial assumptions

11.9 The present value of an obligation is determined by discounting the estimated future payment required to settle the obligation resulting from employee service rendered in the current and prior periods, using interest rates of high-quality corporate bonds for the corresponding maturity years, together with a set of assumptions and methods.

11.10 The following assumptions and methods have been used to determine the value of post-employment and other long-term employee benefit liabilities at 31 December 2017:

- *Actuarial method*. Employee benefit obligations are computed using the projected unit credit method.
- *Attribution periods*. For after-service health insurance, the attribution period is the entry-on-duty date to the full eligibility date. For repatriation benefits, the attribution period is from the entry-on-duty date to the earlier of years of continuous service away from home country and 12 years of service, with the exception of staff who joined after July 2016, whose entitlement starts from the fifth year of service. After 12 years, obligations are affected only by future salary increases. The attribution period for annual leave is from the date of hire to the separation date, subject to a maximum eligibility of 60 days. For the end-of-service allowance, the attribution period is from the date of hire, which is the beginning of the credited service period, to the date the incremental benefit is earned.
- *Mortality*. Mortality rates for pre- and post-retirement are based on 2015 actuarial valuation of the United Nations Joint Staff Pension Fund, together with rates for withdrawal and retirement.
- *Discount* rate. 2.02 per cent (2016: 1.94 per cent) for after-service health insurance and 1.13 per cent (2016: 1.10 per cent) for repatriation, annual leave and end-of-service allowance.

- *Medical cost trend rates*. 4.68 per cent for 2017, 4.59 per cent for 2018 and grading down to an ultimate rate of 4.50 percent in 2019 and beyond.
- *Rate of salary increase*. 2.00 per cent (2016: 2.00 per cent), but varying according to age, category and individual progression.
- Repatriation grant. It is assumed that all Professional staff is eligible for repatriation benefits and will receive them upon separation from service.
- Repatriation *travel costs*. 0.00 per cent (2016: 0.00 per cent) change in future years.
- Annual *leave*. It is assumed that all staff are eligible for these benefits and will receive them upon separation from service. Accumulation rates of leave balances vary with years of service.

11.11 Assumed medical cost trends have a significant effect on the amounts recognized in the statement of financial performance. A 1 percentage point change in assumed medical cost trend rates would have the following effects:

	1 percentage point increase	*1 percentage point decrease*
	(thousands of euros)	
Effect on year-end accumulated after-service health benefits obligation	53,476	(40,257)
Effect on combined service and interest cost	4,562	(3,275)

Reconciliation of defined benefit obligation

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*End-of-service allowance*	*Total*
	(thousands of euros)				
Defined benefit obligation at 31 December 2016	**231,515**	**10,162**	**6,275**	**10,208**	**258,160**
Service costs	9,267	510	621	512	**10,910**
Interest costs	4,454	106	66	110	**4,736**
Actual gross benefit payments	(3,494)	(853)	(772)	(970)	**(6,089)**
Actuarial (gains)/losses	(26,424)	(353)	(426)	(403)	**(27,606)**
Actuarial (gains)/losses of joint operation	(1,444)	(64)	23	(131)	**(1,616)**
Defined benefit obligation at 31 December 2017	**213,874**	**9,508**	**5,787**	**9,326**	**238,495**

Annual expense for the year 2017

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*End-of- service allowance*	*Total*
	(thousands of euros)				
Service cost	9,267	510	621	512	**10,910**
Interest costs	4,454	106	66	110	**4,736**
Total expense	**13,721**	**616**	**687**	**622**	**15,646**

11.12 It is expected that the contribution to the after service health insurance plan will remain at the same level in 2018.

United Nations Joint Staff Pension Fund

11.13 UNIDO's financial obligation to the United Nations Joint Staff Pension Fund (UNJSPF) consists of its mandated contribution at the rate established by the United Nations General Assembly (currently at 7.9 per cent for

participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the UNJSPF.

11.14 In 2017, UNIDO's contributions paid to the UNJSPF amounted to €7,879 (2016: €7,811).

11.15 The actuarial valuations are undertaken every two years, with the most recent valuation carried out as of 31 December 2015. The consulting actuary concluded that there was no requirement for deficiency payments under Article 26 of the Regulations of the UNJSPF.

Note 12. Advance receipts

	31 December 2017	*31 December 2016*
	(thousands of euros)	
Assessed contributions in advance	3,730	2,959
Voluntary contributions in advance	23,886	32,617
Advances from Vienna International Centre-based organizations	3,501	3,515
Deferred project income	2,932	7,098
Major Repair and Replacement Fund deferral	5,501	4,505
Performance obligation for voluntary contributions agreements	22,226	23,700
Total advance receipts	**61,776**	**74,394**

	31 December 2017	*31 December 2016 (restated)*
	(thousands of euros)	
Composition:		
Advances from non-exchange transactions	58,275	70,879
Advances from exchange transactions	3,501	3,515
Total advance receipts	**61,776**	**74,394**

12.1 Assessed contributions received from Member States against future year's assessment are reflected in the advance receipts account.

12.2 Voluntary contributions in advance represent funds received from donors awaiting programming for specific project activities.

12.3 Advances from organizations based at the Vienna International Centre include funds received for special work programmes carried out by Buildings Management Services at the Vienna International Centre.

12.4 Deferred project income includes project clearing accounts held for the United Nations Development Programme and other United Nations and host governments-related projects implemented by UNIDO.

12.5 The fund balances held in the Major Repair and Replacement Fund on behalf of the Vienna-based organizations (see note 6) are awaiting release for services to be delivered in the future. Due to the nature, it was re-classified as Advances from non-exchange transactions.

12.6 Voluntary contributions received with conditions on their use are held in a liability account until the discharge of performance obligations, as stipulated in the agreements.

Note 13. Other liabilities

	31 December 2017	*31 December 2016*
	(thousands of euros)	
Other current liabilities		
Deferred exchange gains	2,431	2,431
Accruals for goods/services received-but-not-paid	15,902	12,067
Other liabilities	4,644	4,366
Total other current liabilities	**22,977**	**18,864**
Other non-current liabilities		
Deferred income — Vienna International Centre performance obligation	34,293	36,671
Due to Buildings Management Services fund	460	383
Long-term guarantees — bank/rent deposit	335	96
Total other non-current liabilities	**35,088**	**37,150**

13.1 Exchange gains represent the remaining balance of realized gains arising from the revaluation of euro-denominated cash and term deposits held in trust funds, prior to the introduction of euro management of technical cooperation projects in 2004.

13.2 Accruals are liabilities for goods and services that have been received or provided to UNIDO during the period and which have not been invoiced or formally agreed with the suppliers.

13.3 Other liabilities consist of remitted payments and miscellaneous payables.

13.4 Performance obligation represents the full value of the gift from the Republic of Austria for use of the Vienna International Centre building deferred until UNIDO fulfils its commitment to retain its headquarters seat on the premises on an annual basis. The net book value of UNIDO share of the self-financed leasehold improvements of €1,139 (2016: €1,114) reduces the performance obligation valued at the UNIDO share of the Vienna International Centre buildings net book value of €35,431 (2016: €37,785).

13.5 Due to Buildings Management Services fund represents the amount due for UNIDO's share of the negative net assets resulting from the unfunded long-term employee benefits mentioned under Note 9. These are paid on a pay-as-you-go basis by the Vienna-based organizations.

Note 14. Fund balances

	Regular budget funds					
	General fund	*Regular programme of technical cooperation*	*Working Capital Fund*	*Technical cooperation funds*	*Other funds*	*Total*
	(thousands of euros)					
Opening balance 1 January 2017	**(165,834)**	**5,911**	**7,423**	**567,448**	**(15,709)**	**399,239**
Net surplus/(deficit) for the year	(15,214)	(636)	-	10,645	(87)	**(5,292)**
Subtotal	**(181,048)**	**5,275**	**7,423**	**578,093**	**(15,796)**	**393,947**
Movements during year						
Credits to Member States	(17,513)	-	-	-	-	**(17,513)**
Transfer (to)/from provision for delayed contribution	751	-	-	-	-	**751**
Actuarial gains/(losses)	21,339	7	-	340	5,920	**27,606**
Consolidation adjustments	146	-	-	-	-	**146**

	Regular budget funds					
	General fund	Regular programme of technical cooperation	Working Capital Fund	Technical cooperation funds	Other funds	Total
	(thousands of euros)					
Total movements during year	**4,723**	**7**	**-**	**340**	**5,920**	**10,990**
Closing fund balance 31 December 2017	**(176,325)**	**5,282**	**7,423**	**578,433**	**(9,876)**	**404,937**

Regular budget general fund

14.1 The negative regular budget general fund balance is as a consequence of unfunded long-term employee benefits liabilities amounting to €238,495 as at 31 December 2017 (2016: €258,160).

Regular programme of technical cooperation

14.2 In accordance with General Conference decision GC.9/Dec.14, a special account was established for fully programmable appropriations under the regular programme of technical cooperation, not subject to financial regulations 4.2 (b) and 4.2 (c).

Working Capital Fund

14.3 General Conference decision GC.2/Dec.27 established the Working Capital Fund at $9 million for the purpose of financing budgetary appropriations pending the receipt of contributions or unforeseen and extraordinary expenditure. At subsequent sessions of the General Conference, the level of the Fund was progressively reduced to $6,610,000. With the introduction of euro assessment effective 1 January 2002, the amount was converted to euros in accordance with decision GC.9/Dec.15, resulting in a Working Capital Fund of €7,423,030. The Fund is financed through advances paid by Member States based on the scale of assessments approved by the General Conference.

Technical cooperation

14.4 Fund balances under technical cooperation funds represent the unexpended portion of voluntary contributions that are intended to be utilized in future operational requirements of the project activities.

Other funds

Movements in other funds

	Note	1 January 2017	Movements during the year	Net surplus (deficit) for the year	31 December 2017
		(thousands of euros)			
Computer Model for Feasibility Analysis and Reporting fund	14.5	321	-	(199)	**122**
Operational budget	14.6	(18,792)	5,920	923	**(11,949)**
Fund for the Programme for Change and Organizational Renewal	14.7	1,168	-	(656)	**512**
Special Account of Voluntary Contributions for Core Activities	14.8	-	-	12	**12**
Major Capital Investment Fund	14.9	810	-	(195)	**615**
Regular budget supplementary appropriation: Vienna International Centre security	14.10	575	-	-	**575**
Sales publication revolving fund	14.11	209	-	28	**237**
Total		**(15,709)**	**5,920**	**(87)**	**(9,876)**

14.5 The Fund for Computer Model for Feasibility Analysis and Reporting (COMFAR) supports the distribution of COMFAR software, which facilitates short and long term analysis of financial and economic consequences of industrial and non-industrial projects.

14.6 Income from programme support costs, charged in respect of programme expenditure under extrabudgetary technical cooperation activities, is recognized either at the time of the establishment of obligations or at the time of disbursement, whichever happens first, and is credited to the special account for financing the operational budget. The negative fund balance is a consequence of unfunded future liabilities accrued from employee benefits of €27,728 (2016: €31,470).

14.7 General Conference decision GC.13/Dec.15(h) established the special accounts from the unutilized balances of appropriations due to Member States in 2010 for financing the Programme for Change and Organizational Renewal.

14.8 At its forty-third session, the Industrial Development Board took note of the establishment of the Special Account of Voluntary Contributions for Core Activities (SAVCCA) (decision IDB.43/Dec.6, paragraph (i)). The purpose of the SAVCCA is to facilitate the receipt, management, and use of voluntary contributions for core activities that cannot be fully funded from the regular budget due to funding constraints.

14.9 In the same IDB decision, the Board also took note of the establishment of the Major Capital Investment Fund (MCIF). The MCIF provides a funding mechanism to secure funding for major capital investments or replacements in such a way that major expenditures of a one-off or infrequent nature will not cause significant distortion to the levels of the regular budgets. In decision IDB.44/Dec.8, paragraph (c), the Board encouraged Member States and donors to increase their voluntary contributions to UNIDO, including for the SAVCCA and MCIF.

14.10 The General Conference, at its eleventh session, established a special account with effect from 2006, for the purpose of financing the UNIDO share of the security enhancements at the Vienna International Centre (decision GC.11/Dec.15). The special account is not subject to financial regulations 4.2 (b) and 4.2 (c). Owing to the specific purpose of the special account, it is classified under the segment "other activities" in the financial statements.

14.11 The sales publication revolving fund was established in the biennium 1998–1999, as contained in document GC.7/21 and pursuant to decision GC.7/Dec.16, to support longer range planning of publication activities, including promotion, marketing and re-printing of publications. The fund is credited with one half of the income generated from the sale of publications and charged with the full costs related to promotions, marketing and publication activities.

Note 15. Reserves

	Note	*1 January 2017*	*Movement during the year*	*31 December 2017*
		(thousands of euros)		
Project personnel separation reserve	15.1	1,780	137	1,917
Insurance of project equipment		75	-	75
Statutory operating reserve	15.2/3	3,449	-	3,449
Separation indemnity reserve	15.4	5,499	-	5,499
Appendix D reserve for compensation payments	15.5	3,356	479	3,835
Reserve for exchange rate fluctuations	15.6	1,155	-	1,155
Total		**15,314**	**616**	**15,930**

Project personnel separation reserve

15.1 This reserve is made to meet unforeseen repatriation grant entitlements for personnel financed by technical cooperation resources other than inter-organization arrangements and certain trust funds and are calculated on the basis of 8 per cent of net base pay.

Statutory operating reserves

15.2 An operating reserve, established in respect of the special account for programme support costs, in accordance with Programme and Budget Committee conclusion 1989/4, at $5,504 was reduced to $4,300 (€4,829), in accordance with Industrial Development Board decision IDB.14/Dec.12. By decision IDB.30/Dec.2, the Board reduced the level of the operating reserve to €3,030. The purpose of the reserve is primarily to protect against unforeseen shortfalls in technical cooperation delivery and the related support cost income, for inflation and currency adjustments and to liquidate legal obligations in the case of abrupt termination of operating budget activities.

15.3 The Industrial Development Board, in decision IDB.2/Dec.7, authorized the freezing of the operational reserve of the Industrial Development Fund at $550 (€419). The purpose of the reserve is to ensure the financial liquidity of the Fund and to compensate for uneven cash flows.

Separation indemnity reserve

15.4 Pursuant to decision GC.6/Dec.15, paragraph (e), the amount of $9,547, representing the balance of appropriations for the biennium 1992–1993, which was actually received by the Organization, was transferred to a separation indemnity reserve in 1995. Pursuant to General Conference decision GC.7/Dec.17, the amount of $13,900 was transferred from the unencumbered balance of appropriations for the biennium 1994–1995 for the funding of the separation indemnity reserve to meet the cost of staff separations resulting from the 1998–1999 programme and budgets. Unlike the previous allocation from the biennium 1992–1993, the allocation from the biennium 1994–1995 was not supported by actual cash, as large arrears existed for that biennium. The cumulative payments made during the period 1995 to 2001 from both reserves amounts to $18,546. The remaining balance of $4,900 was converted to euros on 1 January 2002 using the exchange rate approved by the General Conference (GC.9/Dec.15). Accordingly, the balances attributable to the above two decisions are €1,110 and €4,389, respectively.

Reserve for compensation payments

15.5 A provision is made to meet potential liabilities for compensation payments under appendix D to the Staff Rules for personnel financed by technical cooperation resources other than inter-organization arrangements and certain trust funds and are calculated on the basis of 1 per cent of net base pay.

Reserve for exchange rate fluctuations

15.6 The General Conference in decision GC.8/Dec.16 authorized the Director General to establish a reserve, not subject to the provisions of financial regulations 4.2 (b) and 4.2 (c). Consequently, the reserve was established in the biennium 2002–2003 in order to protect the Organization from exchange rate fluctuations resulting from the introduction of the euro as a single currency for the preparation of the programme and budgets, appropriation and assessment, collection of contributions and advances, and currency of accounts.

Note 16. Revenue

	Note	*31 December 2017*	*31 December 2016*
		(thousands of euros)	
Assessed contributions	**16.1**	**66,733**	**68,234**
Voluntary contributions			
For technical cooperation		213,751	217,723
For support to regular activities		353	153
Subtotal, voluntary contributions	**16.2**	**214,104**	**217,876**
Investment revenue	**16.3**	**317**	**551**
Revenue producing activities			
Sales publications		104	98
Computer Model for Feasibility Analysis and Reporting		61	109
Other sales		14	175
Subtotal, revenue producing activities	**16.4**	**179**	**382**
Miscellaneous income			
Transfer from reserve for exchange fluctuation	**16.5**	-	1,842

	Note	31 December 2017	31 December 2016
		(thousands of euros)	
Release of performance obligation for the Vienna International Centre	16.6	1,903	2,025
Contribution in kind — Vienna International Centre land	16.7	224	223
Other	16.8	127	136
Subtotal, miscellaneous income		**2,254**	**4,226**
TOTAL REVENUE		**283,587**	**291,269**

16.1 The General Conference approved an amount of €136,417 for the regular budget for the biennium 2016–2017 (decision GC.16/Dec.15), which is financed from assessed contributions by Member States. Accordingly, €66,733, representing one-half of the biennial amounts assessed, adjusted by the amounts due from rescinding Member States of €1,476 (2016: €26). Payments made by a Member State are credited first to the Working Capital Fund and then to the contributions due, in the order in which the Member State was assessed (see financial regulation 5.5(c)).

16.2 Voluntary contributions are recognized upon the signing of a binding agreement between UNIDO and the donor, provided that there are no conditions limiting the use of the funds.

16.3 Investment revenue represents interest earned and accrued on short-term deposits held with financial institutions.

16.4 Income from revenue-producing activities consists of sales of publications and the Computer Model for Feasibility Analysis and Reporting, and cost recovery for technical services.

16.5 The amount transferred from the reserve for exchange rate fluctuations is the necessary compensation for a euro deficit on actual dollar spending against the budgeted rate (see paragraph 15.6).

16.6 The release of the performance obligation for the Vienna International Centre buildings corresponds to the fulfilled commitment to maintain the headquarters seat in the premises.

16.7 The contribution in kind represents the value of the free use of the land at the Vienna International Centre.

16.8 Other miscellaneous income includes proceeds from sales of property, plant and equipment, and from bonuses received from airlines.

Contributions in kind for projects and field office operations

16.10 Contributions of services in kind estimated at €2,865 (2016: €2,054) were received mainly in support of UNIDO projects and field office operations and are measured at fair value. In accordance with IPSAS standard 23, UNIDO has elected not to recognize such contributions on the face of the financial statements. Details of in-kind contributions of services received are as follows:

	31 December 2017	31 December 2016
	(thousands of euros)	
Contributions of services in kind for the use of:		
Office space	1,037	785
Furniture and fixtures	21	11
Communications and information technology equipment	41	32
Vehicles	72	76
Machinery, tools	785	765
Utilities	35	16
Other goods/services	70	45
Contribution to conferences, workshops and training	77	98
Personnel services	632	108
United Nations Development Programme administered Junior Professional Officers	95	118
Total	**2,865**	**2,054**

Note 17. Expenses

	Note	31 December 2017	31 December 2016
		(thousands of euros)	
Staff salaries		36,300	36,769
Staff entitlements and allowances		32,446	30,143
Temporary assistance		1,643	2,376
Project personnel and consultancies		55,780	51,752
Subtotal, salaries and employee benefits	**17.1**	**126,169**	**121,040**
Regular travel		1,655	1,328
Project travel		10,410	7,529
Rental, utilities and maintenance		4,358	3,946
Inventory consumed/distributed		86	134
Information technology, communications and automation		3,482	3,170
Supplies and consumables		1,963	1,924
Other operating costs		6,910	6,598
Project operating costs		1,512	945
Subtotal, operating costs	**17.2**	**30,376**	**25,574**
Contractual services	**17.3**	74,033	62,947
Equipment expensed	**17.4**	10,091	5,817
Depreciation and amortization	**7.8**	7,973	8,206
Other expenses	**17.6**	1,771	1,566
TOTAL EXPENDITURE		**250,413**	**225,150**
Currency translation (gains)/losses	**17.7**	38,466	(4,702)

17.1 Salaries and employee benefits are for UNIDO staff, consultants and holders of individual service agreements. Project personnel costs include costs for experts, national consultants and administrative support personnel.

17.2 Operating costs include travel, utilities, field office operations, United Nations system jointly financed activities, information technology (IT) and communications, and contributions to common services at the Vienna International Centre.

17.3 Contractual services represent mainly subcontracts entered into for project implementation activities.

17.4 The expenses for equipment represent machinery and equipment handed over to the beneficiaries, or over which UNIDO has no control.

17.5 Depreciation and amortization includes expensed low value assets of €977 (2016: €849).

17.6 Other expenses include bank charges of €95 (2016: €125).

17.7 Currency translation differences, primarily arising from revaluation of non-euro bank balances, investments, assets and liabilities at the end of the period are as a consequence of a decrease in the year-end dollar/euro exchange rate from 0.956 in 2016 to 0.837 in 2017 (2015: 0.914).

Note 18. Statement of comparison of budget and actual amounts

18.1 The budgets and accounts of UNIDO are not prepared using the same basis. The statement of financial position, statement of financial performance, statement of changes in net assets and statement of cash flow are prepared on a full accrual basis, using a classification based on the nature of expenses in the statement of financial performance, whereas the statement of comparison of budget and actual amounts (statement 5) is prepared on a modified cash basis of accounting.

18.2 Basis differences occur when the approved budget is prepared on a basis that is not the same as the accounting basis, as stated in paragraph 18.1 above.

18.3 Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for UNIDO for the purpose of comparison of budget and actual amounts.

18.4 Entity differences occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared.

18.5 Presentation differences are the result of differences in the format and classification schemes adopted for the presentation of the statement of cash flow and the statement of comparison of budget and actual amounts.

18.6 Reconciliation between the actual amounts in the statement of comparison of budget and actual amounts (statement 5) and in the statement of cash flow (4) for the period ended 31 December 2017 is presented below:

	Operating	*Investing*	*Financing*	*Total*
		(thousands of euros)		
Balance of appropriations (statement 5)	13,200	-	-	**13,200**
Basis differences	22,622	(1,776)	(17,513)	**3,333**
Presentation differences	(22,643)	-	-	**(22,643)**
Entity differences	(5,993)	(10,274)	-	**(16,267)**
Actual amount in the statement of cash flow (statement 4)	**7,186**	**(12,050)**	**(17,513)**	**(22,377)**

18.7 Budget amounts have been classified based on the nature of expenses in accordance with the programme and budgets approved for the biennium 2016–2017 by the General Conference at its sixteenth session (GC.16/Dec.15) for regular and operational budgets of the Organization.

Explanation of material differences in the regular budget

18.8 Explanations of material differences between the original budget and the final budget, as well as between the final budget and the actual amounts are presented below.

Staff costs

18.9 The budgeted staff costs for Professional and General Service posts were under-utilized by approximately 5.11 per cent. The uncertainty in the payment of assessed contributions by Member States required the Organization to maintain a higher than budgeted vacancy factor throughout the year.

18.10 Various temporary professional posts had to be created that have resulted in a budget overspend in this category of €0.79 million. Further, the increasing costs in the requirements for After Service Health Insurance (ASHI) resulted in an overspending in this category by €1.09 million.

Official travel

18.11 The budget for official travel was underutilized by €0.69 million. In addition to conservative spending, savings were achieved through concerted efforts to use information and communications technology instead of physical travel.

Operating costs

18.12 Savings in operating costs in the amount of €3.17 million were mainly the result of reduced requirements for UNIDO's contribution to the common Buildings Management Service of €0.61 million and UNOV security and safety services of €0.30 million. The former resulted from a separate funding pool that was secured to offset the cost of occupying additional floors at the VIC. Further, translation and document production reported an underutilization of €2.03 million. The underutilization of €0.70 million in the contribution to Joint activity with the United Nations has been nearly offset by the unfunded requirement of the United Nations Resident Coordinator (UNRC), where the expenditures amounted to €1.44 million.

Information and communications technology

18.13 The underutilization of €1.85 million in resources for information and communications technology is mainly attributable to reduced usage of the budget lines for IT contractors by €0.76 million, IT assets by €0.66 million and communications service charges by €0.44 million, as UNIDO continues to make concerted effort at technological efficiency and seeking alternative arrangements with its service providers.

Regular programme of technical cooperation and Special Resources for Africa

18.14 Resources for the regular programme of technical cooperation were administered under the special account created for that purpose to which the full appropriation had been transferred. An underutilization of €0.17 million was recognized under Special Resources for Africa.

Note 19. Segment reporting

A: Statement of financial position by segment as at 31 December 2017

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Inter-segment transactions*	*Total UNIDO*
			(thousands of euros)		
ASSETS					
Current assets					
Cash and cash equivalents	28,234	351,700	67,491	-	**447,425**
Accounts receivable (non-exchange transactions)	9,255	171,154	799	-	**181,208**
Receivables from exchange transactions	27	281	1,123	-	**1,431**
Inventories	-	-	842	-	**842**
Other current assets	5,167	21,098	461	(3,541)	**23,185**
Subtotal, current assets	**42,683**	**544,233**	**70,716**	**(3,541)**	**654,091**
Non-current assets					
Receivables	69	100,809	-	-	**100,878**
Property, plant and equipment	36,523	22,862	1,243	-	**60,628**
Intangible assets	108	160	587	-	**855**
Other non-current assets	4,276	1	3,297	(2,699)	**4,875**
Subtotal, non-current assets	**40,976**	**123,832**	**5,127**	**(2,699)**	**167,236**
TOTAL ASSETS	**83,659**	**668,065**	**75,843**	**(6,240)**	**821,327**
LIABILITIES					
Current liabilities					
Accounts payable (exchange transactions)	180	58	660	-	**898**
Employee benefits	2,667	275	114	-	**3,056**
Transfers payable (non-exchange transactions)	21,118	7,742	12,851	(3,541)	**38,170**
Advance receipts	6,429	49,045	9,001	(2,699)	**61,776**
Other current liabilities	4,477	15,359	3,141	-	**22,977**
Subtotal, current liabilities	**34,871**	**72,479**	**25,767**	**(6,240)**	**126,877**

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Inter-segment transactions*	*Total UNIDO*
			(thousands of euros)		
Non-current liabilities					
Employee benefits	176,335	5,283	56,877	-	**238,495**
Other non-current liabilities	34,751	334	3	-	**35,088**
Subtotal, non-current liabilities	**211,086**	**5,617**	**56,880**	-	**273,583**
TOTAL LIABILITIES	**245,957**	**78,096**	**82,647**	**(6,240)**	**400,460**
NET ASSETS/EQUITY					
Accumulated surpluses/(deficits) fund balances	(153,688)	573,667	(9,750)	-	**410,229**
Current period surplus/(deficit)	(15,214)	10,009	(87)	-	**(5,292)**
Reserves	6,604	6,293	3,033	-	**15,930**
TOTAL NET ASSETS/EQUITY	**(162,298)**	**589,969**	**(6,804)**	-	**420,867**
TOTAL LIABILITIES AND NET ASSETS/EQUITY	**83,659**	**668,065**	**75,843**	**(6,240)**	**821,327**

B: Statement of financial performance by segment for the year ended 31 December 2017

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Inter-segment transactions*	*Total UNIDO*
			(thousands of euros)		
INCOME/REVENUE					
Assessed contributions	66,733	-	-	-	**66,733**
Voluntary contributions	353	213,739	12	-	**214,104**
Investment revenue	70	218	29	-	**317**
Revenue producing activities	171	6	19,389	(19,387)	**179**
Other	2,851	4,129	(17)	(4,709)	**2,254**
TOTAL REVENUE	**70,178**	**218,092**	**19,413**	**(24,096)**	**283,587**
EXPENDITURE					
Salaries and employee benefits	49,929	58,543	17,697	-	**126,169**
Operational costs	12,305	17,041	1,030	-	**30,376**
Contractual services	2,185	71,613	235	-	**74,033**
Technical cooperation equipment expensed	35	10,056	-	-	**10,091**
Depreciation and amortization	2,705	4,606	662	-	**7,973**
Other expenses	4,759	21,077	31	(24,096)	**1,771**
TOTAL EXPENDITURE	**71,918**	**182,936**	**19,655**	**(24,096)**	**250,413**
Currency translation differences	13,474	25,147	(155)	-	**38,466**
SURPLUS/(DEFICIT) FOR PERIOD	**(15,214)**	**10,009**	**(87)**	-	**(5,292)**

19.1 Some internal activities lead to accounting transactions that create inter-segment revenue and expense balances in the financial statements.

19.2 During the year ended 31 December 2017, activities have created inter-segment balances in the amount of €4,153, €555 and €19,387 (2016: €4,031, €445 and €16,855) in the statement of financial performance for the regular programme of technical cooperation, special resources for Africa and programme support costs, respectively. Inter-segment transfers are measured at the price at which the transactions occur.

19.3 Accumulated fund balances under technical cooperation funds and other funds represent the unexpended portion of contributions that are carried forward to be utilized in the future operational requirements under the respective activities.

19.4 Cash and short-term investments have restrictions on their availability for use based on the fund concerned since funds are earmarked for specific activities.

Note 20. Commitments and contingencies

20.1 *Leases.* Operating costs include payments recognized as operating lease expenses during the year in the amount of €1,707 (2016: €1,502). The amount includes minimum lease payments. No sublease payments or contingent rent payments were made or received.

The total of future minimum lease payments under non-cancellable operating leases is as follows:

	Within 1 year	*1 to 5 years*	*After 5 years*	*Total*
		(thousands of euros)		
31 December 2017	346	9	-	355
31 December 2016	407	1	-	408

20.2 UNIDO operating lease agreements are mainly for office premises and IT equipment in the field offices. Future minimum lease payments include payments that would be required for rented premises and equipment until the earliest possible termination dates under the respective agreements.

20.3 Some of the operating lease agreements contain renewal clauses that enable the Organization to extend the terms of the lease at the end of the original lease terms, and some contain escalation clauses that may increase annual rent payments based on increases in the relevant market price indexes in the country concerned.

20.4 There are no agreements that contain purchase options.

20.5 *Commitments.* The commitments of the Organization include purchase orders and service contracts that were contracted but not delivered as at year-end. A list of these commitments by major funding source is given below.

	31 December 2017	*31 December 2016*
	(thousands of euros)	
Regular budget	2,171	1,341
Trust fund	39,404	35,536
Montreal Protocol on Substances that Deplete the Ozone Layer	47,848	50,995
Global Environment Facility	85,722	77,345
Industrial Development Fund	12,366	13,444
Inter-organization arrangements	531	245
Regular programme of technical cooperation	1,386	1,635
Special services and other	195	218
Total commitments	**189,623**	**180,758**

20.6 *Contingent liabilities.* The contingent liabilities of the Organization consist of appeal cases pending at the Administrative Tribunal of the International Labour Organization by both current and separated staff members. The Organization is not in a position to measure probability of rulings in favour of complainants or predict exact award

of damages. However, based on the various claims, the contingent liabilities at year-end amounted to €305 (2016: €2,547).

20.7 Contingent liabilities on pending cases under Appendix D of the Staff Rules for possible retroactive payment amounted to €245 (2016: €154) and additional recurring monthly payments of €7 (2016: €22).

Note 21. Losses, ex-gratia payments and write-offs

21.1 UNIDO made Ex-gratia and special claims payments during 2017 of €65 (2016: €65).

21.2 The value of property, plant and equipment written off during the year due to loss/theft amounts to €6 (2016: €65).

Note 22. Related party and other executive management disclosure

Key management personnel

	No. of individuals	*Aggregate remuneration*	*Other compensations*	*Total remuneration 2017*	*Outstanding advances against entitlements 31 December 2017*
		(thousands of euros)			
Director General	1	398	104	502	-
Deputy to the Director General	1	377	-	377	-
Managing Directors	2	435	-	435	10

22.1 The key management personnel are the Director General, the Deputy to the Director General and the Managing Directors, as they have the authority and responsibility for planning, directing and controlling the activities of UNIDO.

22.2 The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, entitlements, assignment and other grants, rental subsidy, employer contributions to the pension plan and current health insurance contributions.

22.3 Other compensation includes the official car assigned to the Director General valued at the market rental cost of a similar vehicle together with the remuneration paid to the official driver.

22.4 Key management personnel are also eligible for post-employment benefits (see note 11 on employee benefits) at the same level as other employees. Benefits which are payable on separation are reflected as part of the remuneration for those that were separated in the current year, but cannot be reliably quantified for the future as they depend on the years of service and actual date of separation (which could be voluntary).

22.5 Key management personnel are ordinary members of the United Nations Joint Staff Pension Fund.

22.6 Advances made against entitlements of key management personnel in accordance with staff rules and regulations amounted to €10 as at 31 December 2017 (2016: €0).

Note 23. Events after reporting date

23.1 Reporting date of UNIDO is 31 December 2017. As at the date of signing of the present accounts, as specified in the certification, there have been no material events, favourable or unfavourable, between the reporting date and the date when the financial statements have been authorized for issue, that would have affected the statements.